

# **Sorbic International Plc**

## **Annual Report for the period ended 31 March 2016**

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# Director, Secretary and Advisers

Director	John Nigel Major McLean (Non-executive Chairman)
Company Secretary	Nigel Cartwright
Company Number	06280431
Registered Office	82 St John Street, London England EC1M 4JN
Auditors	Crowe Clark Whitehill LLP St. Bride's House 10 Salisbury Square London EC4Y 8EH
Legal advisers to the Company	Stephenson Harwood LLP 1 Finsbury Circus London EC2M 7SH

# Chairman Statement

## OVERVIEW

Shareholders will be aware that on 22nd April 2015, the Board removed Mr Wang (Wang) from the board as he refused to remit any funds to the UK; additionally Wang transferred the Company's cash to his own account. Since that date the Board have been working with Tim Clissold (per below) to find a resolution to seek to regain the Company's funds. So that shareholders can have an understanding of the circumstances surrounding the events over the last 30 months, I have set out below a summary of the actions which have been taken together with an update of our progress.

During this period, the Company has been without any funds. To enable it to continue, discussions have been had with the relevant stakeholders for their continued support. I am pleased to report that the creditors and investors have been wholly supportive and although no new funds have been forthcoming, they have not pressed their claims. I would particularly like to thank the key loan-note holders for their continued support during the last 30 months.

In order to survive, some of the directors (John Gunn, Piers Monkton and myself) have advanced funds in order that the Company may continue. Due to the limited amount of funds available, priority has been given to furthering the negotiations with Wang. As a result, the annual accounts have not been completed until now and other commitments have been minimised (share registration and website etc).

Tim Clissold (Tim) was hired to help the Board in finding a resolution to the missing cash. Tim has operated in China for about 30 years, speaks Mandarin and is well practiced in finding recovery solutions for international companies in China. Tim is remunerated on a success fee basis (15% of monies recovered) together with a retainer. Given the Company's parlous financial position, a portion of the new funds raised from the Directors was used to initially fund Tim, but subsequently, he has worked purely on a contingent basis. Further, as part of the agreement which was reached with the note-holders, the note-holders agreed to take responsibility for the payment of Tim out of the funds which were recovered.

In July /August 2017, the company (through an intermediary in China) received RMB 3 million (approximately £330,000) from Wang as a goodwill payment in respect of the settlement.

Now that the Company is in funds, the outstanding regulatory and shareholder matters will be brought up to date, including the audited Accounts for the year to 31<sup>st</sup> March 2017. Additionally, the calling of an AGM will be regularised.

Given the time period since Wang's dismissal and his taking the Company's funds, I have set out below a summary of the events which have occurred since 22<sup>nd</sup> April 2015 and have started by detailing 3 key previous shareholder releases:

**A: INTERIM STATEMENT dated 30<sup>th</sup> June 2015**

**B: UPDATE dated 20<sup>th</sup> August 2015**

**C: UPDATE dated 9<sup>th</sup> September 2015;**

Additionally, I have summarised the subsequent events in date order:

**D: October 2015 to November 2015**

**E: December 2015 to May 2016**

**F: June 2016 to September 2017**

## **A: INTERIM STATEMENT Executive Summary**

*Prior to the Company's delisting on 16<sup>th</sup> July 2015, the interim statement was issued which reported*

- *Revenue for the period was £6.6 million (H1 2014: £7.5 million)*
- *Gross profit margin for the period of 6.9% (H1 2014: 11.9%)*
- *EBITDA for the period of £0.05 million (H1 2014: £0.554 million)*
- *Net loss after tax of £0.46 million (H1 2014: loss of £0.08 million)*
- *Net cash balance at the end of the period were £7.93 million\* (H1 2014: £6.61 million)*
- *Net assets of £11.30 million\* as at 31 March 2015 (H1 2014: £9.95 million)*

# Chairman Statement

## Introduction

The Board reports that the Group's operating subsidiary, Linyi Van Science and Technique Co., Ltd ("LVST") revenues for the six months ended 31 March 2015 were £6.6 million (RMB 62 million), which is down on the prior period (2014: £7.5 million and RMB 75 million), and is mainly due to a reduction in selling prices (particularly in February and March) and an element of foreign exchange. This has impacted LVST's overall operating margin for the half year, which was 6.9% (2014: 11.9%), as well as a reduction in LVST's EBITDA to £0.05 million compared to £0.55 million for 2014. The finance cost for the period includes £0.49 million representing the redemption premium which was agreed at the time of the roll-over in August 2014 in the event that the loan-notes were not redeemed by 31 December 2014.

Revenues continue to be dominated by exports to the US (via the APAC Chemical Corporation) and Chinese domestic business.

Margins for Sorbic Acid have fluctuated widely during the period from 9% in January to a negative 3% in March, whilst Potassium Sorbate margins have also moved significantly from 14% in January to 4% in March. The significant margin change was partly due to the timing issue of Chinese New Year, and according to Mr Wang Yan Ting ('Wang'), the Company's former CEO, an increase in power costs due to a move from coal generation to gas generation. As further explained below, due to the events on 22 April ('events'), it has not been possible for the Board to gain any further information from the Linyi management.

UK and Singapore overheads remain in line with budget, with the exception of an approximate additional £75,000 to £100,000 to cover legal and other costs associated with the events.

The net assets as at 31 March 2015, show an improvement to £11.3 million compared to the full year as at 30 September 2014 of £10.12 million, which is due to currency appreciation against Sterling. Notwithstanding the events, the cash balance as at the period end has been reflected without any adjustment.

## Loan Notes repayment

As announced on 29 August 2014, the outstanding loan note principal of £2.5 million was rolled over until 31 December 2014 to allow sufficient time for the loan notes to be repaid. Discussions took place with Mr Wang and the Company's advisors and a plan had been agreed to take the necessary action to repay the outstanding loan note as the Company's subsidiary ("LVST") had approximately £6.9 million in the bank at the year-end.

Mr Wang agreed in the October 2014 Board meeting for LVST's funds to be transferred and again at the Board meeting on 7 December 2014, he confirmed this statement. To ensure that the transfer actually happened, the Board appointed eCFO, which is a business consultancy, based in China with over 20 years' experience of dealing with such issues, both to advise and to implement the Board's funds repatriation policy.

During January and February 2015, it became apparent that Mr Wang had no intention of releasing any funds, which was confirmed at a Board meeting in March.

In addition, during that time, the Board had been unable to adequately progress resolution of the compensation due regarding Inner Mongolia and the proposed expansion of the Company's operations in Linyi.

To remedy this position, the two UK-based directors sought and followed the advice from the Company's lawyers and advisers in China and announced on 22 April 2015, the removal of Mr Wang, the Group and Company CEO, from office, both at the Board (plc) level and in respect of the operating subsidiary ("LVST") in China. Furthermore, the Board voted to terminate Mr Wang's role as Legal Representative in China and to replace him with Mr Cai Jun, the Managing Partner of Guolan, a Beijing law firm. As part of the change, the remaining two Directors of LVST were also replaced.

For the change in Legal Representative to be legally (as opposed to corporately) effective, the change has to be registered with the relevant branch of the State Administration of Industry and Commerce. This has not occurred for the reasons explained below.

Since being replaced as the Company's Legal Representative for LVST in China and from the LVST board, Mr. Wang has declined to hand-over the Company's corporate seals (chops) and business licences, which were removed from the premises before he was dismissed. The local police were contacted, but deemed Mr. Wang's non-cooperation as a commercial matter and were therefore unwilling to assist.

Further, members of the new LVST board attempted to enter LVST's premises on 23 April, but non-uniformed security personnel prevented entry.

As a result of Mr. Wang's non-cooperation, the bank accounts and the day-to-day operations of the Company still remain under the control of Mr. Wang. Furthermore, Mr. Wang has confirmed that he has transferred funds belonging to the Company which remain under his control and, to date, he has refused to return them. At 31 March 2015, the management accounts showed total cash balances of approximately £7.9 million.

# Chairman Statement

*The Board has been informed that the Company's factory in Linyi continues to be fully operational and Mr. Wang remains in regular contact with the Company.*

*Following the events of 22 April, 2015 in Linyi, the Board has adopted a pro-active approach and has initiated the following actions:*

**A legal route** via our lawyers Zhong Lun and a direct approach to the Police in Linyi and the Public Security Bureau in Beijing and Linyi;

**A diplomatic route** via British Embassy in Beijing, the Chinese Embassy in London and UKTI in the UK;

**A direct route** via the appointment of Tim Clissold as special advisor to the Board ( UK based, fluent in Chinese, experienced in dispute resolution in China, and the author of 'Mr China') and his colleague Frank Li (China based and an ex China Foreign Affairs Ministry diplomat).

*The above actions have been complemented by articles in the Financial Times and The Times.*

*Negotiations are now ongoing with Mr Wang and the Board will provide an update as and when appropriate. Shareholders should be aware that all of the disclosures contained with this statement may be read by Mr Wang. In addition, as the events have taken place after the period end, consideration will need to be given in the year-end accounts as to whether any accounting adjustments will be required.*

## **Cash**

*Sorbic International plc is wholly reliant on the transfer of funds from China to meet its operating costs and to repay the loan notes (approximately £3.75 million including redemption premium and interest) which remain outstanding and are in default. During the entire process, regular communication has occurred between the Company and the loan-stock holders through their representative and Board director, Jay Newman.*

*As announced on 8 December 2014, 6,000,000 shares were issued to raise £240,000 to fund the Company whilst the then plans for the funds transfer from LVST were put in place.*

*Following the series of events above, the financial position of Sorbic International plc is uncertain.*

## **Inner Mongolia**

*In addition, the Board has been unable to progress resolution of the outstanding compensation due in respect of Inner Mongolia.*

*As previously reported, a framework to determine the amount of compensation had been agreed and within that framework, preliminary indicative figures would indicate that the compensation could be sufficient to cover the current carrying costs (£2.5 million). Currently, the Board were informed by Mr Wang that negotiations are on hold whilst an IM audit takes place.*

*In my statement in June 2014, I indicated that the balance sheet had previously stated that the funding for the land purchases had been provided by the Company's CEO, Mr Wang. However, this was proven not to be the case as the funding was provided by either loans or grants from the local industrial zone. As the documentation for the loans/grants from the local authorities is minimal, the Board has adopted a prudent approach in assuming the entire purchase was loan funded. Accordingly, the accounts were reclassified to reflect the change in liability which has had no effect on the reported net assets. Shareholders should be aware that when it was discovered that the funding was not provided by Mr Wang and that various other transactions took place, legal action was initiated with the Chinese authorities, the outcome of which was that the Inner Mongolian Public Security Bureau visited Linyi and subsequently concluded that no criminal event had taken place. Following these events, Mr Wang became more cooperative for a short while, and the Board was alerted to Mr Wang's approach to corporate governance and the rights of other shareholders.*

## **Linyi**

*According to Mr Wang, in respect of the proposed move to a new site within Linyi, an agreement has largely been reached with the new land identified and the relocation package outline agreed, however given the events, the details of the proposed move are now uncertain and will be revisited when control of the subsidiary has been regained.*

## **Nomad**

*Finncap, the Company's Nomad, has the right under the Company's agreement to resign if Sorbic's shares are suspended. On 16 June, Finncap announced their resignation. Discussions have taken place with a number of Nomads over the last year, however, none were willing to replace Finncap until the Company and Board were regularised. Accordingly, it is unlikely that there will be a satisfactory resolution (the return of control of LVST and the control and return of the cash) for the Company by 17 July, 2015 and therefore, the Company will be delisted.*

# Chairman Statement

## **Legal representative**

*Included within the interim statement is a paragraph setting out the role and responsibilities of the Legal Representative and the associated use of the corporate seal or 'chop'. Such controls work within a benign environment, but it is clear from our experience that the ability of the Company to remove a rogue Legal Representative is severely restricted, if not impossible, if he takes the chops and business licences and refuses to affix the chop to the documents appointing his replacement. Prior to 22 April 2015, the Company had sought to change the Legal Representative; however Mr Wang refused such a change.*

## **Board changes**

*As I reported on 19 January 2015, Jay Newman was appointed as a non-executive director. Jay has over 20 years' experience of working in China and specifically, he has been working with the Company since autumn 2013 as the Loan Notes observer. As I have mentioned above, on 22 April Mr Wang was removed as CEO and as a director of the Company.*

## **Going concern**

*Whether the Group will have sufficient resources to continue in operational existence for the foreseeable future will ultimately be dependent on the repayment of the outstanding loan notes and the successful resolution and return of the funds controlled by Mr Wang.*

## **Outlook**

*Demand for the Group's products continues, but the hurdles of cash transfers, Inner Mongolian negotiations, the Linyi move and Mr Wang's behaviour have all contributed to a very challenging period since the year-end.*

*At the AGM on 7 May and post the events on 22 April, the Board was unanimously re-appointed: both Jay and I would like to thank the shareholders, loan-stock holders and the current professionals for their help and support and both of us will continue to work tirelessly to seek an acceptable resolution.*

## **B: UPDATE dated 20<sup>th</sup> August 2015**

*Following the interim statement on 30th June, 2015, both Jay Newman and I have either met or had discussions with a number of shareholders, loan-note holders and other stake-holders to update them on the current progress. Given that six weeks have elapsed since our last formal communication, we thought it would be appropriate to give an update to all parties, and to provide significantly more detail about the background of this issue.*

*As shareholders are aware, on 22nd April the Board voted to terminate Mr Wang Yan Ting's ("Wang") role as Legal Representative in China and to replace him with Mr Cai Jun, the Managing Partner of Guolan, a Beijing law firm.*

## **Legal Representative**

*For the change in Legal Representative to be legally (as opposed to corporately) effective, the change has to be registered with the relevant branch of the State Administration of Industry and Commerce ("SAIC"). As Mr Wang retained the business licences and chops, it was not possible to register the Legal Representative change and therefore, legally in China, Mr Wang remains the legal representative and retains effective control of LVST and its assets.*

## **Actions taken**

*Given Mr Wang's refusal to comply with a valid board resolution, it is essential that other influences are brought to bear within China to achieve a satisfactory resolution. Your Board considered all legal options at the outset. We informed the Police and the Public Security Bureau, but with no discernible benefit, as they characterised the matter as a commercial dispute. We have been advised that if we were to pursue the matter through the local courts, it could take between 18-24 months with no certainty of a satisfactory conclusion. Moreover, our advice is that there is an established precedent in China, that in similar situations where a dispute occurs between foreign and local interests, the underlying business often becomes unstable with suppliers, customers and employees all taking action to protect their respective interests. Accordingly, if a legal route is taken, there is a significant risk that, by the time a court decision is issued, the assets would be significantly depleted in value and there is also a lengthy appeal process. Therefore, in the current circumstances, your Board is no longer actively pursuing the legal route, but will keep it under review as the situation develops. At present, your Board believes that the diplomatic route will prove more fertile and reliable in achieving a solution as an engaged Chinese Government will want to protect the local economy and will be able to exert pressure on Mr Wang to achieve an amicable solution.*

*Accordingly, as I indicated before, we have been in contact with the British Embassy in Beijing. Our Ambassador has discussed the business environment in Shandong and made specific reference to Sorbic International plc ('Sorbic') with the Provincial Governor in a letter which was sent early August 2015. To complement this action, I wrote a detailed letter to the Governor which has been hand delivered to him personally by a mutual friend. We are now in contact with the Governor's office to progress matters.*

# Chairman Statement

*The above initiative has been taken in conjunction with various discussions between Mr Wang, Tim Clissold and Frank Li (Tim Clissold's colleague) in Linyi, Shandong Province, both in person and by phone in search of an agreed settlement. These discussions have given focus to Mr Wang's concerns and his reasons for refusing to give up the Linyi Van Science and Technique Co., Ltd ("LVST") chops and licences.*

## **Background history**

*Prior to Sorbic's involvement, Mr Wang consolidated his shareholding by buying out the other local shareholders in LVST to achieve a 100% holding. It appears from what Mr Wang has told us that several of the original Chinese shareholders were never paid in full by him for their shares and, as a result, some monies are still outstanding to these shareholders. Furthermore, Mr Wang has stated that the outstanding consideration obligation was guaranteed by LVST.*

*Chronologically, Mr Wang's share acquisitions took place in January 2008, and subsequently Mr Wang sold his shares to Honourfield International Limited ("HF") in May 2008. HF was then acquired by Sorbic in September 2008, prior to the IPO.*

*At the time of Sorbic's acquisition of HF and its subsidiary LVST, professional due diligence was conducted on the originating share transactions and from what we can see, there was nothing to suggest that any monies were outstanding. Further, Mr Wang gave Sorbic formal representations at the time of the acquisition that full disclosure had been made in respect of LVST and that there were no actual or contingent liabilities outstanding.*

*In respect of the purported guarantee from LVST for the outstanding share consideration, we have seen preliminary evidence that Mr Wang's share purchase document was chopped by LVST, implying a company guarantee. However following consultation with our Chinese Legal advisors, it would appear that if any guarantee existed, it would now have expired. Further, the documents supplied by Mr Wang differ significantly from those which were officially recorded at SAIC.*

*It has to be said that a significant amount of the above information is based on Mr Wang's version of events as there is very little corroborative detail available. In addition to the above, Mr Wang is aggrieved as the shares he received on the sale of HF no longer belong to him, as they are held by Prime Mega International Limited ("PM"). The circumstances of this are detailed below. PM is a nominee company registered in the British Virgin Islands and whose sole shareholder and director is Mr Ray Ang (Sorbic's former CEO). From what we can understand, PM has no other assets apart from its holding in Sorbic. Your Board understands that, at the time of the acquisition of HF, Mr Wang's shares were agreed to be held by PM under an entrustment agreement between Mr Wang and PM and others because PRC exchange regulations prohibited Mr Wang from holding them directly at that time. Your Board has recently seen a draft copy of this agreement, which is for a term of three years expiring in 2011. Again, your Board understands that on the conclusion of this agreement, Mr Wang intended to transfer the shares back to himself or to a nominee company controlled by him, depending on the exchange regulations in force at the time. However no such transfer took place. PM has been contacted and they have been asked to furnish a copy of the entrustment agreement, however they have refused to provide any documentation and further they have confirmed that they retain the beneficial ownership of these shares, which amounts to approximately 30% of Sorbic's issued share capital.*

*Your Board believes that Mr Wang may have a legitimate grievance concerning the PM shares. However if such a grievance exists, it is with Prime Mega International Limited and not with Sorbic International plc, HF or LVST. Furthermore, when Mr Wang initially brought his concerns to the Board's attention in autumn 2014, a meeting was expressly held to review the matter and, in conjunction with eCFO, a PRC-based Western consulting firm, it was agreed that Mr Wang should pursue his grievance directly with PM. From our understanding, Mr Wang has taken no such action.*

*The arguments that Mr Wang has deployed to justify his actions on 22nd April have no merit as both of his justifications relate to his personal position and NOT to the any of the group companies.*

## **Strategies**

*In should be noted, positively, that Mr Wang remains willing to enter into negotiations and has not absconded. Further, we understand that LVST continues to operate with Mr Wang in regular contact. Mr Wang has had discussions with both Tim Clissold and Frank Li, which may lead to a conclusion and in this respect a framework for an outline solution is currently under discussion. Your Board's prime objective is to regain control of LVST, its cash, licences and chops and if there are other significant possible solutions, then any such solution will require both support and approval from the loan stock holders and shareholders. In addition, given the issues raised by Mr Wang concerning both the outstanding share consideration and the PM shareholding, your Board will consider what additional action can be taken for the benefit of shareholders; however any such action will be of a secondary nature to the prime objective. To assist shareholders in understanding the strategies which have been considered, I have summarised them below:*

1. Recover control of LVST
2. Recover the relationship, repay the loan-note holders and develop the business;
3. A deal could be done with Mr Wang for him to exit LVST thus allowing Sorbic shareholders to develop the business and repay the loan note holders;
4. A deal could be done for Mr Wang to buy-out and compensate Sorbic shareholders with part of the proceeds being used to repay the loan-note holders
5. Sorbic shareholders and loan-note holders could sell LVST to a third party;

# Chairman Statement

6. Sorbic shareholders and loan-note holders could lobby the provincial and local government to broker a resolution to the matter;
7. Sorbic shareholders and loan-note holders could fight the case through the national Chinese courts;
8. Any combination of the above.

*In determining the strategies to adopt, your Board is mindful of the time and cost it will take to achieve a resolution together with the optimisation of the funds available to shareholders after the repayment of the loan- notes. In order to maintain the integrity of all of the options, the Board has not taken any precipitative action which could both jeopardise the ongoing operations of LVST nor upset the supply of product to its current customers.*

## **Corporate governance**

*As has been widely documented in the press, the relationship between China and the UK is entering a 'golden period' and the forthcoming visit of President Xi to the UK in October will go further in cementing the bond. However, as has been widely publicised recently both with Sorbic and several other Chinese companies listed in London, corporate governance remains an issue of considerable concern and importance to investors and the London Stock Exchange, and it needs to be addressed by serious government to government dialogue in order to ensure the future viability of China stocks on the London markets. One of the main issues to be addressed is how the key company decision makers within China are disincentivised from doing anything for either personal gain or the non-adherence of corporate processes, as currently, the sanctions available are external to China and therefore the local manager believes he/she can act with impunity. It should be noted in passing, that these types of problems are equally common in China stocks quoted in other financial markets including the US and Hong Kong.*

## **Loan notes and cash**

*As reported in the interim statement, Sorbic is in default on the repayment of the outstanding loan stock and is wholly dependent on the successful resolution of the issues in China for redemption. The loan-stock holders have been regularly updated with the possible solutions and the actions taken and remain supportive with the strategies adopted. Furthermore, as Sorbic's cash reserves are minimal, your Board has reduced Sorbic's expenditure and has not been drawing any fees (since April 2015) and has been part funding expenses. However, to maintain the momentum of the actions to date, there will be a requirement to raise some additional working capital and your Board is exploring the available options, which include issuing additional loan notes or shares. In respect of the former, Sorbic has sufficient capacity to issue additional loan notes, whilst in respect of the latter; Sorbic will require shareholder approval (together with a Shareholder Circular) and also the approval of the loan-note holders.*

*Whether the Group will have sufficient resources to continue in operational existence for the foreseeable future will ultimately be dependent on the repayment of the outstanding loan notes and the successful resolution and return of the funds controlled by Mr Wang.*

## **Nomad and delisting**

*As reported in my interim statement, Finncap, our Nomad announced their resignation on 16th June 2015. Prior to Finncap's resignation, discussions had taken place with a number of Nomads, however none were willing to replace Finncap until the Company and Board were regularised (the return of control of LVST and the control and return of the cash). As Mr Wang has continued to ignore the Board's instructions, Sorbic had no alternative other than to delist on 17th July, 2015.*

## **Board**

*As has been demonstrated above, the resolution of the Sorbic issue will take time and, given the delicate balance which exists between all the various interested parties and the complicated nature of the discussions, your Board believes that it would be appropriate that they appoint additional Directors to the Board. Accordingly I would be grateful if shareholders could nominate (by email to me as per below) potential Directors for your Board's consideration by 5th September 2015. Furthermore, from discussions with shareholders, it is apparent that some prefer a more direct approach and if this is a widely held view and the current strategy is unacceptable, I am willing to step aside and let others take up the mantle.*

*Shareholders should be aware that the contents of this letter will be available both to Mr Wang and Prime Mega International.*

## **Summary**

*In summary, your Board believes that, through the experience of Tim Clissold and Frank Li, the use of diplomatic channels, media and your Board's connections, a framework will be found which will provide a solution in the near term. Any such solution will wholly depend on all of Sorbic's stakeholders working together in harmony. It is therefore our hope that the addition of new board members nominated by the shareholders will help us achieve that.*

# Chairman Statement

## **C: UPDATE dated 9<sup>th</sup> September 2015**

*We heard yesterday from Frank Li, Tim Clissold's colleague in China, that he had spoken to the Linyi government official who is handling our case. She was friendly and helpful and reported that:*

- *In August, Governor Guo issued a letter to the UK Ambassador stating that he had asked the Shandong Provincial Bureau of Commerce to look into our situation with LVST with a view to understanding the situation and encouraging a negotiated settlement. The Provincial Bureau passed his request for information to the Linyi City Commerce Bureau with a request for the issue to be resolved.*
- *Frank Li spoke yesterday with the Linyi Commerce Bureau official handling the case. She noted:*
  - *the Provincial office had requested documents from Wang but not from Sorbic;*
  - *the official found that the documents we had already submitted were clear and sufficient and that they needed nothing more at this stage;*
  - *Wang's letter to her, like ours, was balanced, objective and non-accusatory; Wang was complying with all of her requests and she would pass all the information onto the Provincial Bureau.*

*We believe that this is a significant step forward to resolving the issue. It is clear now that the Governor has responded exactly as we had hoped and that Wang feels significant pressure from the Governor. The Linyi Commercial Bureau informed Frank Li that Wang has stated in writing his willingness and intention to resolve the issues, which will make it difficult for him to continue his strategy of procrastination. It also suggests that once we do come to an agreement, the government will be supportive of implementing that agreement.*

*Our focus now is on maintaining the momentum initiated by our letter to the Governor*

## **D: October 2015 to November 2015**

Various discussions continued between Wang and Tim, which were more about creating a dialogue rather than negotiation. At the same time, I visited Inner Mongolia to discuss the issues and to put pressure on Wang.

## **E: December 2015 to May 2016**

Following the above, negotiations continued with Wang whilst at the same time, 3 new shareholder directors joined the board (17<sup>th</sup> September 2015), John Gunn, Piers Monkton and Les Allan as non-executive Directors. As part of their joining, 2 of the new directors (John Gunn and Piers Monkton) provided £40,000 working capital to the Company to allow the Company to continue whilst the negotiations continued.

On 4<sup>th</sup> April 2016 a settlement agreement was reached with Wang which subsequently was completed on 7<sup>th</sup> May 2016 with the receipt of an LVST guarantee. The terms of the respective agreements were as follows:

*In summary, the quantum of the amount committed by Wang is RMB 38,000,000 and the timing is that all funds will be due by December 2016. The initial funds of RMB 6,000,000 are due 10 days after the business licence has been issued, which for practical purposes, the funds are expected in late April/ early May (2016) with the overall timings as follows:*

*6,000,000: 10 days after the issuance of the business licence*

*6,000,000: 31May 2016*

*8,000,000: 31st August 2016*

*8,000,000: 31st October 2016*

*10,000,000: 31st December 2016*

*The document and guarantee have been reviewed by the Company's lawyer in China. Due to the PRC approval process, Honourfield (the Company's Singapore subsidiary and intermediate holding company) must sign the contract and the business licence of LVST must be changed before currency can be remitted out of the country. The lawyers have advised that a guarantee should be obtained from LVST over the payments (obtained on 7th May 2016)).*

*Furthermore, both the settlement agreement and the guarantee document are both directly actionable in China, as the agreement has been completed under the China CEITAC arbitration provisions.*

# Chairman Statement

## **F: June 2016 to September 2017**

During the period from June 2016 to September 2017, various discussions and meetings took place between the Board's representatives, Wang and myself (I only met with our representatives) and such meetings were summarised and where appropriate, notified to the loan-note holders and other stakeholders. An extract of these summaries is detailed below:

**June 2016** Wang has been in contact with the Commercial bureau in Linyi and has received a schedule from them for the documents (13 in total) which are required to effect the settlement.

The Board's representatives are now liaising with Wang and his assistant to finalise the documents for submission so that all documents can be submitted next week. The Commercial bureau has stated that they will approve the documents within 2 working days from receipt.

**June 26** Following the Board's representatives visit to China, all the necessary submission documents have been completed and were lodged on Thursday 23rd: subsequently we have had some further document requests which have now been provided.

**August** LVST has submitted an application to Municipal Industrial and Business Administration, applying for transferring the LVST files to Hi-Tech Industrial and Business Administration, right now the Municipal is putting together all the files in the past years and should be ready for collection in one or two days.

The Board's representative reports that he has been staying in touch with Hi-Tech Industrial and Business Administration (they call it Market Regulation Bureau), according to them, the procedure for issuing new business licence has been changed in recent years, that new business license would be issued at the same time with the 组织机构代码证(organizing institution bar code) and 税务登记证. This new procedure called 三证合一, would mean that Hi-Tech AIC would have to coordinate the taxation department and 质检总局(General Administration of Quality Supervision, Inspection and Quarantine) before they can issue the new business license. According to them, their standard internal approval and processing procedures would require 15 working days, but they agreed to do it quicker. Hopefully we can sort out everything with the business license by mid-August.

**16<sup>th</sup> August** The Board's representatives have been pushing LVST quite hard these days, and have visited the Municipal SAIC to ask for transferring the files to Hi-Tech SAIC, but were told that because of the restructuring (that SAIC and the Quality and Technology Supervision Bureau is undergoing a merger: a chaotic process), that one of LVST's files is missing, and Linyi SAIC asked LVST to wait for their notification. That means that the files could not be transferred to Hi-Tech SAIC to start the license issuance process.

The Board's representatives called Linyi SAIC repeatedly in the past few days, but no one picked up the phone. They asked an official to explain to SAIC the situation and tell SAIC that if they can not find the file and transfer to Hi-Tech SAIC quickly, then LVST will be in default and has to accept penalty. The Board's representatives called Wang Yanting, Wang said that they had same frustration when going through other approval procedures because of such chaotic situation caused by restructuring of local government. Wang agreed to find some connections in the Linyi SAIC to push the case.

### **Subsequently**

The Board's representatives chased LVST, Chen (LVST manager) is in Inner Mongolia, he said that Wang has pushed Linyi SAIC to find out the missing file, but has not got confirmation yet. The Board's representatives told Chen that he should ask SAIC to transfer the remaining files to Hi-Tech to go ahead with the license, and transfer that missing file after finding it, otherwise, we will have to go to Linyi SAIC to push.

**9<sup>th</sup> September** The Board's representatives have been in touch with the Linyi High-tech Zone Market Regulation Bureau, which has the same function as the SAIC (State Administration of Industry and Commerce) and is the approval authority that issues the new business licence that triggers the payment under the contract.

The issue is that there has been a reorganisation inside Linyi, whereby responsibility for regulating companies in the High-tech Zone has been transferred from the Municipal SAIC to the High-tech Market Regulation Bureau. This process has revealed some serious discrepancies in the files related to LVST. The problem is that some hard-copy records have been lost.

# Chairman Statement

*The Board's representatives spoke to an official at the Market Regulation Bureau. She told our representative that an official (Deputy Bureau Director of High-tech Market Regulation Bureau) had been called by the Deputy Bureau Chief of Municipal SAIC and that they had suggested that a way of solving the problem was to print out the electronic records for the missing files and then chop them so as to create a substitute. When they tried to do that, the work revealed inconsistencies between the electronic and hard copies, so now the High-tech Zone Market Regulation Bureau SAIC has refused to accept them. Our representative has been given a hand-written copy of all the missing/inconsistent documents. Many of them relate to 2003.*

*Yesterday the Deputy Director of the High-tech Zone and the people from the market Regulation Bureau met to discuss the case. Eventually they decided that the errors were so big that they did not dare to accept the Municipal SAIC suggested solution. So they send the files back and the onus is now on the municipal bureau to sort out the problem. Since then SAIC deputy bureau chief is aware of and dealing with this issue.*

**27<sup>th</sup> September** *The high tech bureau had an internal discussion and they communicated with Municipal Bureau, and the next step is that Hi-Tech Bureau will go through all the files and pick up the problems and make a clear list, and then the Bureau Chief will take Mr. Chen of LVST to visit the Municipal Bureau, and have a face to face meeting, to reconfirm with the Municipal Bureau of all the issues in writing, and then ask the Municipal to chop the list. In this case, the Hi-Tech Bureau will have no responsibilities over these problems (Municipal Bureau gave a list to Hi-Tech Bureau earlier, but there was no chop or signature, so it would not be formal and effective).*

**14<sup>th</sup> October** *i) The factory is shut at the moment because there is an inspection team down from Beijing and the city government has shut down all production in order for the atmosphere to appear free of pollution. This is only temporary.*

*ii) The Board's representatives asked Wang to explain the process of issuing the business licence and the reasons for the delay. Wang's account meshed exactly with what had been gathered in the discussions with the SAIC and also with Chen, Wang's assistant. Neither of the Board's representatives felt that there was anything in what Wang said that should raise any suspicions about any deliberate attempt to interfere with the process. They think that the administration is genuinely in a state of chaos due to reorganisation and that a habitually lazy and indolent bureaucracy is unusually slow at present.*

## **Administration changes**

*a) the SAIC (State Administration of Industry and Commerce) has merged with the State Administration of Food and Drug Safety (not so much merged as part of the SAFDS function has been transferred to SAIC.) In the last month, LVST's 'licence to produce' issued by the SAFDS has expired. This has to be replaced before the SAIC will issue the new business license.*

*b) Wang has arranged for officials from the SAFDS to visit the factory for an inspection on 15th October. Wang said that after the visit, the officials could verbally inform the SAIC and they would issue the business licence. The Board's representatives pressed him on that point as he doubted that the SAIC will issue the licence without an official document. Wang then made some phone calls and he agreed that it would be unlikely that SAIC will issue the business licence without an official document from SAFDS. Wang was told that it will take 5-7 business days for SAFDS to issue the new licence.*

*c) SAIC is still in a state of flux. The data for new business licences has to be converted from paper documents to e-versions. The upshot is that, after the 'licence to produce' is issued, it will probably take another 5-7 working days for SAIC to issue the business licence. The Board's representatives then confirmed explicitly with Wang that there was no other document needed and that this 'licence to produce' was the final piece of the puzzle.*

*d) Therefore, given past performance, The Board's representative thinks that it will probably be another two to three weeks before the business license is issued.*

**17<sup>th</sup> October** *LVST passed the State Administration of Food and Drug Safety inspection and the issuance of the licence has been confirmed, which is expected to be 2 to 3 weeks.*

# Chairman Statement

**26<sup>th</sup> October** The Board's representatives reported that the safety licence for LVST is necessary for them to run the factory production, particularly after the restrictions caused by pollution control. LVST's production licence expired in the last month (it has 5 year term, so that was bad luck), and Wang has insisted on sorting this out before he gets the business licence as a "domestically invested enterprise" because if he does it the other way round, he has to go through a whole set of procedures to change other documents. Whilst this is not Sorbic's problem, it is nevertheless rational from his point of view for running the factory and the Board's representatives have emphasised that we have been cooperative with him in trying to get a comprehensive solution that works for both sides.

The Board's representatives think that this issue is about to go away and we have agreed that Wang will not need to wait for the actual issuance of the safety licence before going through the business licence procedure. The safety inspection has taken place last Saturday and there were two issues: (i) the factory has to be running at full capacity for them to test it properly, but Linyi government will not let the factory work at full capacity because of the pollution controls. At the moment Wang is buying in partially processed chemicals from Jiangsu to meet demand and running at reduced capacity. There was a big argument between Wang and the bureau about this, but it is now sorted and the tests have been accepted even though it was not done at full capacity, (ii) there needs to be some partition built between the packaging warehouse and the parts warehouse for fire safety; this is now in construction and it will be finished in a couple of days. The inspection bureau will accept an uploaded photo to prove that it has been done.

However, LVST doesn't need to wait for the actual issuance of the safety licence as Wang has agreed to apply for the business licence now and as soon as the photo of the partition is uploaded and he knows that in time he will definitely get his safety licence, he will go ask for issuance of the business licence. The Board's representatives called the ICB in Linyi and talked to the Section Chief. She does not know exactly what to do as they have not actually done this change before (after the reorganisation - it has been done in Linyi but not High-tech Zone), so Chen will go to the ICB on Friday and they will meet together with the deputy bureau chief. Meanwhile, the Board's representative has downloaded the necessary forms and discussed it with the ICB and will stay on top of the process. Chen is in Inner Mongolia and is back in Linyi on Friday and will go to the bureau then.

**31st October** The Board's representatives called LVST Mr. Chen and Linyi Hi-Tech Market Regulation Bureau today, LVST has made the partition of their warehouse/packaging warehouse and took photos. Chen visited last Friday the Hi-Tech Market Regulation Bureau and got the guidance about the procedures and documentations for changing business license. For next steps, LVST will prepare new Article of Association (as a private company), and appoint new directors and supervisor (they have started), and then file these documentations through on-line system. Hi-Tech Bureau will review it on line. After passing the on-line review, LVST needs to take all the documents in hard copy to Hi-Tech Bureau for approval.

Our representative pushed Chen to submit the document quickly on line (he is preparing now), and will call him the next few days. Chen said it might take a few days, as the Article of Association and directors' appointment letter would need signatures from Wang and newly appointed director/supervisor.

**24<sup>th</sup> November** Wang has not delivered on his promises; therefore a different course of action is required, including:

- John to write to Wang to inform him that he will be writing to some of LVST's customers;
- Visit the local government department to break the logjam
- The Board's representatives to visit Wang later this month

The letter has been received by Wang and rejected by him, but will be pursued by the Board's representatives together with making contact with the authorities and visiting them on Monday 28<sup>th</sup>, together with a meeting with Wang;

**28th November** The Board's representatives met with Wang. The next step is for SAIC to issue the business licence and then payments will be triggered. Also, there has been a concatenation of excuses for this not being done. The most recent one, which was the 'Food and Drug Safety Inspection' has been solved. There is now only one issue outstanding which relates to tax.

Wang was asked why he didn't know about the tax issue earlier. He said that no one at the SAIC knew about it. This is may be credible because, the approval authority has been given the High-tech SAIC and they have not done this is before. Our representatives were getting very tired of additional hurdles being continually raised, and asked for a copy of the relevant tax regulations so that they can be reviewed independently and verify that this is not a smoke screen. Wang agreed to provide.

# Chairman Statement

*Wang stated that he will be going to the tax bureau tomorrow to see the Bureau Chief to sort this out. He went there today but the guy wasn't there. He has promised to call tomorrow evening with an update.*

*Wang did not try to re-cut the deal. He said twice, "I have promised to pay 38 million and I will"*

**1st December** *The Board's representative called Wang yesterday and he was in a meeting. He has just now spoken to him, he said that he met the Bureau Chief of the Hi-Tech Bureau of Taxation, and the discussion was quite good, the Bureau Chief basically agreed to follow Wang's proposal to handle the asset assessment report and taxation issue (The understanding is that, the taxation bureau would not go too deep in to the details and check the originals, and would accept an assessment report with net asset value of around RMB 38million).*

*Wang was asked when does he expect to finish the taxation part, he said he could not give a specific date, as it would be embarrassing if he could not meet the date, as it is actually not so predictable to deal with the Chinese government, but he would try his best to push it quickly forward*

**21st December** *Today an update was received from China which has reconfirmed the final steps, namely the obtaining of tax clearance. Wang has submitted the necessary papers to obtain the relevant tax clearance and the Board's representative have spoken to the government tax bureau and our lawyers who have both validated the process.*

*In terms of timing, there won't be any significant progress until early March, principally due to the Chinese bureaucracy, which in turn will be compounded by Chinese New Year in late January/early February. We will continue to apply pressure.*

## **2017**

**10th January** *The Board's representative spoke to Wang today, asking him what the progress with the taxation bureau is? Wang said that the Hi-Tech Bureau is still communicating with Municipal Bureau on this issue and he is determined to sort it out by end of Jan.*

*As there are not many days before Chinese New Year, while trying his best to push the taxation issue, Wang should also prepare to make the first payment to Shanghai lawyer's office before the end of Jan. Wang said that if he can sort out the taxation bureau, then he would be able to pay through official channel not long after the Chinese New Year, then it would not be so necessary to make payment to Shanghai office before the New Year. If he cannot sort out the taxation bureau by end of Jan., then he would make some payment to Shanghai then end of Jan. or early Feb.*

**In February**, *the expected business licence is still outstanding and Wang wants a revision to the payment schedule (due to a delay (so he says) in compensation funds from Inner Mongolia). The Board's representatives have negotiated a 'goodwill payment ' now of RMB 3,000,000 and the paperwork has been signed for this to happen immediately. The receipt of funds is awaited.*

**17th March** *Nothing has changed with regard to Wang and the RMB 3,000,000 goodwill payment; however our lawyers, to whom the money was going to be transferred, have gone cold on the use of their 'client' account' due to SAFE ( foreign exchange controls), despite having already given us their account for the transfer. Accordingly, we have had to find another solution.*

**4th April** *A new bank account has been identified and the relevant paperwork is being completed.*

**11th May** *The Board's representatives met with Wang on 11th May and reported as follows:*  
*i) Wang has agreed to pay the RMB 3,000,000 into the new bank account before the end of next week.*  
*ii) Wang has agreed to file for the tax clearance now and do his best to get the new business licence by the end of this month.*

*I signed the RMB 3,000,000 goodwill payment agreement and sent to our representatives for Wang to sign.*

# Chairman Statement

**24<sup>th</sup> July** On Tuesday 18th July 2017, Wang deposited RMB 1,000,000 (£110,000) into Sorbic's escrow account in China. This was part of the RMB 3,000,000 requested as a goodwill payment prior to issuance of the business licence. Wang has indicated that he will deposit a further RMB 2,000,000 within 2 weeks.

Additionally, we have now received legal advice that of the remaining outstanding funds of RMB 37,000,000, an amount of RMB 32,000,000 is not subject to the issuance of a new business license. Consequently, this amount is in default and subject to the arbitration provisions of CIETAC, as set out in the contract and may not be conditional on the issuance of the business licence. Wang disputes this interpretation of the contract. For information, these amounts are owed by Wang personally and guaranteed by LVST.

As soon as the RMB 2,000,000 is paid, a visit will be made to Wang to progress the remaining payments.

In respect of the funds which are received, they are not refundable to Wang unless he completes the remaining payments under the contract.

**22<sup>nd</sup> August** Today, we received a further RMB 2,000,000, which brings in total the funds from Wang to RMB 3,000,000 (£330,000 approx). Sorbic's plan now is to write to Wang this week to seek his plan to pay the remainder of the money and have set a deadline for a response for 1st September.

It is assumed that there will not be a response or one of which is unsatisfactory and therefore, following advice from Sorbic's Chinese lawyers, we are progressing to the next stage which is to go to the arbitration so that our claim is legally endorsed in China.

Additionally, to bring Wang to the table, a specific Wang/ Shandong website has been prepared, which is both in Chinese and English and have stated that it will be published. Depending on events over the next few weeks, we may still do this.

**1<sup>st</sup> September** Following my earlier email, I wrote to Wang on 24th August and although we received a response from Wang, no plan was forthcoming. Accordingly, I have written to Wang today to serve 60 days notice (as required under the arbitration procedures), prior to our submission to CEITAC.

During the above period, we have published the website and sent it to Wang and the Linyi government authorities; additionally the arbitration claim has been drafted and has been externally reviewed so we are ready for submission on 1st November.

Wang has responded this morning (less aggressively) and a meeting with the Board's representatives has been arranged for 9th September in Linyi

**9<sup>th</sup> September** The Board's representatives met with Wang and agreed a proposal for payment, which is conditional on Wang obtaining SAFE approval and adhering to a payment schedule. Accordingly, the ball is now in Wang's court and we wait to see if the pressure which has been applied, has any result. In the interim, the arbitration notice period continues to progress.

It must be said that Wang's track record in honouring his obligations and promises are practically non-existent, however, there is a dialogue

## CASH

Shareholders will understand that in light of the above, the Company's cash resources have been extremely limited, but following receipt of the 3 million RMB, the Company is now in funds and is making arrangements for part of these funds to be remitted to the UK to cover local expenses.

# Chairman Statement

## ACCOUNTS

Shareholders will note from the audited financial statements that they have been prepared on a break-up basis and additionally, the settlement sums due from Wang have been provided against, as there is no certainty that the funds will be received. Accordingly, the Company is not considered to be a going concern and as such, the accounting treatment has reflected this approach.

By adopting a break-up basis the Company has written off the majority of its assets and as a result, has produced a loss of £14,238,471 and has a balance sheet deficit of £4,755,538. Depending on how matters progress with Wang and the receipt of cash, the Company will discuss with the loan-note holders the waiving of any amounts still outstanding, so that the company can be easily dissolved when the settlement is concluded.

## OUTSTANDING LOAN-NOTE

On 17 September 2015, three shareholder directors joined the Board, principally to assess whether any external litigation could be taken against various parties. Additionally, these three directors, together with some other shareholders agreed to fund the Company (via an unsecured loan-note) with specific funds to cover the legal costs. Such advice was estimated to total £60,000 of which approximately £55,000 has been incurred. However, one director, Les Allan, failed to remit funds (amounting to £19,000) which have resulted in the Company owing the lawyers approximately £14,500 as at the date of this report. Lawyers have now been instructed to take the necessary action for recovery from Mr Allan.

## BOARD CHANGES

On 3 March 2017, the three shareholder directors resigned from the board, and on 7<sup>th</sup> March 2017, Jay Newman resigned from the board. I would like to thank them for their input, especially Jay, who ably assisted during the challenging times in 2015, and to John Gunn and Piers Monkton for their financial support.

## SUMMARY

Following the events on 22nd April 2015, the Company has

1. Appointed a leading Chinese law firm, Zhonglun;
2. Contacted the Shandong Police;
3. Contacted the Public Security Bureau in Beijing;
4. Contacted the Chinese Ambassador in London;
5. Through the FT in China, Sorbic has had a number of articles published;
6. Appointed Tim Clissold to advise the Board on a recovery strategy
7. Contacted The British Ambassador who brought the matter up with Governor Guo of Shandong;
8. The British Ambassador subsequently wrote to the Shandong Governor;
9. The chairman also wrote a personal letter to the Shandong Governor;
10. The Shandong Governor issued a Pishi (instruction);
11. Numerous meetings (20 approx) were held with Linyi government officials;
12. As a result, an agreement was signed with Sorbic's CEO in May 2016;
13. In July/August 2017, two payments (totaling RMB 3,000,000) were received from Sorbic's CEO;
14. A website was published and sent to Wang and the government authorities;
15. On 1<sup>st</sup> September a 60 day notice was sent to Wang advising him of the start of the arbitration process with CEITAC;
16. On 9<sup>th</sup> September, a meeting was held with Wang when a further resolution was proposed and agreed.

As can be seen from the above, a great deal of work has taken place to find a solution, however, the outcome is still uncertain. If further monies are received, the funds will be used to pay the outstanding loan notes and also, following an agreement with the loan-note holders, a proportion of the funds will be used to settle creditors and provide some working capital. Based on this, there will be no value left for the ordinary shareholders.

Approximately 30 months have elapsed since Wang took the Company's money. During this time we have tried many routes to find a successful solution and as can be seen, our progress has been minimal. However we have persisted and with the recent receipt of funds and the possible submission of our arbitration claim, there still may be an opportunity to receive further funds.

# Chairman Statement

I would like to thank all the stakeholders for their continued support and patience during this very challenging period.

John McLean  
Chairman  
27 SEPTEMBER 2017

# Strategic Report

The Director is pleased to present their report to the members together with the audited financial statements of Sorbic International Plc (the “Company” or “Sorbic International”) for the period ended 31 March 2016.

The purpose of this Strategic Report is to inform shareholders on several key matters and assist them in assessing the extent to which the directors have performed their legal duty to promote the success of the Company in accordance with section 172 of the Companies Act 2006. This report summarises:

- i) Business review and future developments;
- ii) Financial review;
- iii) Key performance indicators;
- iv) Going concern.

## BUSINESS REVIEW AND FUTURE DEVELOPMENTS

A review of the business and future developments was given in the Chairman’s Statement.

## FINANCIAL REVIEW

As explained in the Chairman’s report, on 22 April 2015, the Company lost control over its operating subsidiary in China and as a result, since that date, no information has been available. Accordingly, the Company’s sole purpose is to recover as much money as possible and as the outlook is uncertain, the Board has prepared and reported the figures for the period to 31 March 2016 on a break-up basis.

On 16 December 2015, the company reached agreement with the principal loan-stock holders to repay a maximum of £4 million, accordingly this amount has been recorded in the books as the amount due in respect of the convertible loan notes.

However, notwithstanding the agreement reached with Mr. Wang, the Company has only just (July/August 2017) received any funds from Wang and therefore, the Board considers that it is prudent to make a provision against any expected recovery.

## KEY PERFORMANCE INDICATORS (“KPIs”)

In light of the above, the only KPI of relevance is the recovery of sum owed by Mr Wang.

## Working Capital and future funding requirements

Whether the Company has sufficient working capital resources to continue operational existence in its present form will ultimately be dependent on the continued support of the loan note holders / shareholders and the successful outcome of the negotiations with Wang and the resultant inflow of funds. As noted earlier, approximately £330,000 has been received in July/August 2017, which when remitted, allow the Company to continue to trade.

By order of the Board

John McLean  
Non-Executive Chairman  
Date: 27 September 2017

# Director's Report

## PRINCIPAL ACTIVITIES

The Company was principally engaged in the manufacture and distribution of food preservatives, namely Sorbic Acid and Potassium Sorbate through its subsidiaries in the People's Republic of China (the "PRC") as set out in Note 19.

The results of the Company are set out in detail on page 21.

## SHARE CAPITAL

Details of the movement in the Company's share capital are set out in note 11 to the financial statements.

## DIVIDENDS

The directors do not recommend payment of a dividend in respect of the period ended 31 March 2016

## DIRECTORS

The following directors served the Company during the period:

John Nigel Major McLean

Wang Yan Ting (Resigned on 22 April 2015)

Jay Newman

Les Allan (Appointed on 17 September 2015)

John H Gunn (Appointed on 17 September 2015)

Piers A C Monckton (Appointed on 17 September 2015)

Subsequent to the period end in March 2017, Les Allan, John Gunn, Piers A C Monckton and Jay Newman resigned as director of the company.

None of the directors has had a material interest in a contract or arrangement of significance to which the Company or any of its subsidiaries was a party during the year except for those disclosed in note 12

## STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The director is responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law, the director has elected to prepare financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS") and applicable law. Under Company Law, the directors must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit and loss of the group for that period. In preparing those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

# Director's Report

The director is responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable him to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each director is aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all steps that he might reasonably expected to have taken as a director in order to make himself aware of any relevant information needed by the auditor in connection with preparing their report and to establish that the auditor is aware of that information.

To the extent that financial information is made available on the Company's website, the director confirm that they are responsible for the maintenance and integrity of that information. However, as the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements, the directors can give no undertaking that it meets all requirements in all countries in which it may be considered to be published.

## AUDITOR

Crowe Clark Whitehill LLP has expressed their willingness to continue as auditor. A resolution to reappoint Crowe Clark Whitehill LLP as auditor of the Company will be proposed at the next Annual General Meeting.

By order of the Board

John McLean  
Non-Executive Chairman  
27 September 2017

# Report of the Independent Auditors

We have audited the financial statements of Sorbic International plc for the period ended 31 March 2016, which comprise the Statement of Comprehensive Income, Statements of Financial Position, Statement of Change in Equity, Cash Flow Statements and the related notes numbered 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union (IFRS).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Director's Responsibilities, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report, the Chairman's Statement and the Director's Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## BASIS FOR ADVERSE OPINION ON FINANCIAL STATEMENTS

As explained in Note 2 to the financial statements, the Company has not prepared consolidated financial statements for the period up to the loss of control as the director considers that this would lead to undue delay to the Company. This is not in accordance with International Financial Reporting Standard 10 Consolidated Financial Statements which requires consolidated financial statements to be prepared for a group of this size and nature.

## ADVERSE OPINION ON FINANCIAL STATEMENTS

The profit and loss account and balance sheet of the Company and related notes set out on pages 25 to 35 show a true and fair view of the results of that entity alone.

However, because the financial statements are incomplete as consolidated accounts have not been prepared, (as described in the basis for adverse opinion on the financial statements paragraph), in our opinion, because of the significance of the matter, the financial statements:

- do not give a true and fair view of the company's affairs as at 31 March 2016 and of the profit or loss for the year then ended; and
- have not been properly prepared in accordance with International Financial Reporting Standards.

In all other respects, in our opinion the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion, which is not modified in respect of going concern, we have considered the adequacy of the disclosures made in note 2.1 to the financial statements. For the reasons disclosed the Company is not considered to be a going concern the financial statements have been prepared on a basis other than that of a going concern.

# Report of the Independent Auditors

## OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Chairman's Statement, Strategic Report and Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Leo Malkin  
**Senior Statutory Auditor**  
For and on behalf of  
**Crowe Clark Whitehill LLP**  
Statutory Auditor  
London

St Bride's House  
10 Salisbury Square  
London  
EC4Y 8EH

# Statement of Comprehensive Income

		Period ended 31 March 2016	Year ended 30 September 2014
	Notes	£	£
Revenue	3	36,000	24,000
Cost of sales		-	-
Gross profit		<u>36,000</u>	<u>24,000</u>
Administrative expenses		(314,992)	(389,449)
Operating loss		<u>(278,992)</u>	<u>(365,449)</u>
Finance income		-	22
Finance costs	4	(903,222)	(544,150)
Loss before tax and impairment		<u>(1,182,214)</u>	<u>(909,577)</u>
Impairment loss and provision	20	(13,056,257)	-
Loss before tax	8	<u>(14,238,471)</u>	<u>(909,577)</u>
Income tax expense	7	-	-
Loss for the period attributable to equity holders of the company		<u>(14,238,471)</u>	<u>(909,577)</u>
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Total comprehensive loss for the period</b>		<u><b>(14,238,471)</b></u>	<u><b>(909,577)</b></u>

The notes on pages 25 to 35 are an integral part of these financial statements.

All items dealt with and arriving at the results for financial period ended 31 March 2016 relate to discontinued activities.

# Statement of Financial Position

	Notes	As at 31 March 2016 £	As at 30 September 2014 £
<b>ASSETS</b>			
Non-current assets			
Investment in subsidiary	19	-	13,056,257
		-	13,056,257
Current assets			
Prepayments, deposits and other receivables	9	2,728	42,719
Amount due from subsidiary	13	-	28,741
Cash and cash equivalents	10	9,137	2,960
Total current assets		11,865	74,420
Total assets		11,865	74,420
<b>LIABILITIES</b>			
Current liabilities			
Accruals and other payables	11	207,334	132,156
Amount due to subsidiary	13	568,204	666,945
Convertible loan notes		4,000,000	3,096,778
Total current liabilities		4,775,538	3,895,879
Total liabilities		4,775,538	74,420
<b>EQUITY</b>			
Capital and reserve attributable to equity holders of the Company			
Share capital	12	3,437,773	3,431,773
Share premium	12	22,481,326	22,247,326
Convertible loan notes – equity	14	78,067	78,067
Accumulated loss		(30,760,839)	(16,522,368)
Total equity		(4,763,673)	9,234,798
Total equity and liabilities		11,865	74,420

The notes on pages 25 to 35 are an integral part of these financial statements.

These financial statements were approved by the directors and authorised for issue on 27 September 2017 and signed on their behalf by:

John McLean  
Non-executive Chairman

**Company Number: 06280431**

# Statement of Changes in Equity

	<b>Share capital</b>	<b>Share premium</b>	<b>Convertible loan notes - equity</b>	<b>Accumulated losses</b>	<b>Total equity</b>
	£	£	£	£	£
<b>As at 30 September 2013</b>	3,203,159	22,120,265	77,842	(15,612,791)	9,788,475
Issue of ordinary share	228,614	160,186	-	-	388,800
Share issue cost	-	(33,125)	-	-	(33,125)
Loss for the period	-	-	-	(909,577)	(909,577)
Convertible loan notes-Equity	-	-	225	-	225
Total Comprehensive Income	-	-	225	(909,577)	(909,352)
<b>As at 30 September 2014</b>	<b>3,431,773</b>	<b>22,247,326</b>	<b>78,067</b>	<b>(16,522,368)</b>	<b>9,234,798</b>
Issue of ordinary share	6,000	234,000	-	-	240,000
Loss for the period	-	-	-	(14,238,471)	(14,238,471)
Total Comprehensive Income	-	-	-	(14,238,471)	(14,238,471)
<b>As at 31 March 2016</b>	<b>3,437,773</b>	<b>22,481,326</b>	<b>78,067</b>	<b>(30,760,839)</b>	<b>(4,763,673)</b>

The notes on pages 25 to 35 are an integral part of these financial statements.

# Company Cash flow statement

Notes	Period ended	Year ended
	31 March 2016	30 September 2014
	£	£
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Loss before taxation</b>	<b>(14,238,471)</b>	<b>(909,577)</b>
Adjustments for:		
Interest income	-	(22)
Finance costs	903,222	544,150
Impairment provision	13,056,257	-
Operating cash flows	(278,992)	(365,449)
Increase/(decreased) in other receivables	39,991	(26,943)
(Decrease)/increase in other payables	(23,563)	36,367
Increase/(decreased) in amount due from subsidiary	28,741	(28,741)
Operating cash flows	(233,823)	(365,449)
Interest paid	-	(636)
Net cash used in operating activities	(233,823)	(385,402)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	-	22
Net cash from investing activities	-	22
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of convertible loan notes	-	111,875
Proceeds from issuance of new shares, net of issue costs	240,000	111,875
Net cash from financing activities	240,000	223,750
NET CASH IN CASH AND CASH EQUIVALENTS	6,177	(161,630)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,960	164,590
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,137	2,960

The notes on pages 25 to 35 are an integral part of these financial statements.

# Notes to the Financial Statements

## 1. GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Sorbic International Plc (the "Company") is a public limited company, which is incorporated and domiciled in the United Kingdom. The address of Sorbic International's registered office is 82 St John Street, London, EC1M 4JN.

On 16 July 2016, the Company was delisted from Alternative Investment Market ("AIM") of London Stock Exchange.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1. *Basis of preparation*

The financial statements for the period ended 31 March 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and Companies Act 2006.

The financial statements have been prepared on a break-up basis. Assets are stated at the lower of costs or net realizable value and liabilities are stated at their expected settlement amounts.

The financial information of the Company is presented in British Pound Sterling ("£").

#### *Going concern*

The Company made a net loss of £14,238,471 for the period ended 31 March 2016 and as of that date, the Company had net current liabilities of £4,763,673.

As described in the Chairman's statement, the Company does not generate any revenue and has been unable to obtain external funding. The company is seeking the repayment of funds from Mr Wang Yan Ting ("Mr Wang") based on the agreement reached with him in May 2016. At the date of approved these financial statement, the Company received approximately £330,000 as part settlement made in July/August 2017 and the Board continues to negotiate for the agreement to be honou red. On 16 December 2015, the Company reached an agreement with the convertible loan-note holders, the amount due in respect of the loan-notes have been capped at £4 million.

Accordingly, the company is not considered to be a going concern. The financial statements have been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the company's assets to net realisable value. Provision has also been made for any contractual commitments that have become onerous at the balance sheet date. The financial statements do not include any provision for the future costs of terminating the business of the company except to the extent that such costs were committed at the balance sheet date.

#### *Standards and interpretation Issued but not yet applied*

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU. The Directors do not anticipate that the adoption of these standards and interpretations in future reporting periods will have a material impact on the Company's results.

### 2.2. *Presentation of Financial Statements*

The company owned 3 subsidiary undertakings, of which two were trading entities, namely Linyi Van Science and Technique Co., Ltd ("LVST") and Inner Mongolia Van Science and Technique Company Limited ("Inner Mongolia"). Mr Wang Yan Ting ("Mr Wang") is the legal representative of these trading entities. As described in Chairman's statement, following to the dismissal of Mr. Wang as director of the Company on 22 April 2015, the Company is unable to gain access to the books and records of these entities for the preparation of group financial statements. Furthermore, the director has considered the fact that Mr Wang, as the legal representative of the entities, still holds the seal of these companies (the chop). On that basis, the director is in the opinion that the Company has no control over these entities.

Following the loss of control of these trading entities described above and the only other subsidiaries are dormant entities, the company has not prepared group financial statements. The financial statements are those of the Company only, although consolidated financial statements should have been prepared up to the date of loss of control of these entities.

# Notes to the Financial Statements

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3. *Revenue*

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Revenue from the management fee income received from the subsidiary undertaking, usually under fixed-rate arrangement during the period. Revenue is recognised when earned and realised or realisable under the term of agreement.

Interest income is recognised on a time-proportion basis using the effective interest method.

### 2.4. *Income tax and taxation*

#### 2.4.1. Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

#### 2.4.2. Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided for using the liability method on temporary timing differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised in full for all temporary differences. Deferred income tax assets are recognised for all deductible temporary differences carried forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and carry-forward of unused tax credits and unused losses can be utilised.

The carrying amount of deferred income tax assets is assessed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that is probable that future taxable profits will allow the deferred income tax asset to be recovered.

### 2.5. *Functional and foreign currency*

#### 2.5.1. Functional and presentation currency

The financial information is presented in British Pound Sterling, which is the Company's functional and presentational currency

#### 2.5.2. Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the consolidated statement of comprehensive income.

# Notes to the Financial Statements

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.6. *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of trade.

The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the consolidated statement of comprehensive income.

### 2.7. *Impairment of assets*

At each balance sheet date, the Company reviews the carrying amounts of its investment in the subsidiary undertakings and the receivables due from the subsidiary undertakings to determine whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

During the reporting period, the Company made an impairment provision of £13.06 million on its investments in the subsidiary undertakings to reflect its fair value in accordance with IAS 36. Further detail is provided in note 19 to the financial statements.

### 2.8. *Cash and cash equivalents*

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

### 2.9. *Trade and other payables*

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### 2.10. *Borrowings and Borrowing costs*

#### 1.1.1. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### 1.1.2. Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. No borrowing cost capitalised during the year.

# Notes to the Financial Statements

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11. *Financial instruments*

Financial assets and financial liabilities are recognised and derecognised on a trade date basis where the purchase or sale of the instrument is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

### 2.12. *Convertible loan notes*

Convertible loan notes issued by the Company are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using prevailing market interest rate for similar non-convertible debt. The difference between the proceeds from issuing the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Company is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the respective date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

### 2.13. *Equity*

For the purpose of preparing the consolidated financial statement of the Company, the share capital represents the nominal value of the issued share capital of the Company. Share premium represents the excess over nominal value of the fair value consideration received for equity shares net of expenses of the share issue.

### 2.14. *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non- occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow is remote.

### 2.15. *Investments in subsidiary undertakings*

Investment in subsidiary companies is stated at cost, less provision for diminution in carrying value. The Board conducts annual impairment review of its investment to ensure that the Company's assets are not carried at more than their recoverable amount.

# Notes to the Financial Statements

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.16. *Key assumptions and sources of estimation uncertainty*

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period.

Although these estimates are based on management's best knowledge of the amount, event or actions, results ultimately may differ from those estimates. The director have reviewed the accounting policies set out above and consider them to be the most appropriate to the Company's business activities.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The director do not consider there to be any key sources of estimation and uncertainty when applying the accounting policies.

## 3. REVENUE

All revenues relates to the management income recharged from Honour Field International Limited ("Honour Field"). The revenue is derived outside the United Kingdom.

## 4. FINANCE COST

	Period ended 31 March 2016	Year ended 30 September 2014
	£	£
Interest on bank loans and borrowings	-	300,350
Other finance costs	903,222	243,800
	<u>903,222</u>	<u>544,150</u>

The Company incurred a non-cash finance charge of £903,222 (2014: £243,800) in relation to the convertible loan notes.

## 5. STAFF COSTS

There was no staff costs as no staff was employed by the Company, other than the directors. The directors' remuneration for the period ended 31 March 2016 was £110,968 (2014: £241,798).

There are no directors to whom retirement benefits are accruing under money purchase pension schemes.

## 6. INCOME TAX EXPENSE

No liability to UK corporation tax arose from the underlying losses for the year ended 30 September 2014 and for the period ended 31 March 2016.

At 31 March 2016, the Company has a corporation tax lossess approximately £4,950,000 (2014: £3,770,000) available to carry forward against future trading profits. No deferred tax asset was recognised in respect to these accumulated tax losses as there is insufficient evidence that the amount will be recovered in future years.

# Notes to the Financial Statements

## 7. LOSS FOR THE PERIOD

The Company's loss for the reporting period is stated after charging the following:

	Period ended 31 March 2016	Year ended 30 September 2014
	£	£
Provision allowance to amount due from subsidiary	3,431,796	-
Impairment loss: investment in subsidiary	9,624,461	-
Impairment loss and provision	<u>13,056,257</u>	<u>-</u>
Auditor's remuneration:		
– Fees payable for the audit of the Company' annual accounts	15,000	15,000

## 8. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 March 2016	As at 30 September 2014
	£	£
Prepayments	1,182	21,152
Other receivables	1,546	21,567
	<u>2,728</u>	<u>42,719</u>

## 9. CASH AND CASH EQUIVALENTS

	As at 31 March 2016	As at 30 September 2014
	£	£
Cash and cash equivalents	<u>9,137</u>	<u>2,690</u>

## 10. TRADE AND OTHER PAYABLES

	As at 31 March 2016	As at 30 September 2014
	£	£
Trade payables	170,934	67,856
Accruals	36,400	64,300
	<u>207,334</u>	<u>132,156</u>

# Notes to the Financial Statements

## 11. SHARE CAPITAL AND SHARE PREMIUM

	As at 31 March 2016	As at 30 September 2014
	£	£
Authorised		
100,000,000 ordinary share of £0.001 each	100,000	100,000
100,000,000 deferred share of £0.059 each	5,900,000	5,900,000

The movement for the year as follows:

	Ordinary shares £	Deferred shares £	Share premium £
Issued, called up and fully			
At 1 October 2013			
53,385,980 Ordinary shares of £0.06 each	3,203,159	-	22,120,265
Issue of 3,768,572 Ordinary shares of £0.06 each	226,114	-	37,686
Split and redenomination of shares	(3,372,119)	3,372,119	-
Issue of 2,500,000 Ordinary shares of £0.001 each	2,500	-	122,500
Less: issuance costs	-	-	(33,125)
At 30 September 2014	59,654	3,372,119	22,247,326
Issue of 6,000,000 Ordinary shares of £0.001 each	6,000	-	234,000
At 31 March 2016	65,654	3,372,119	22,481,326

Although the convertible loan note holders have the right to convert their holdings to shares, their current intention is solely to seek repayment of their loans and accrued interest.

In prior year, the Company issued 3,768,572 Ordinary Shares of £0.06 each at £0.07 in connection with the renegotiation with the loan note holders. The Ordinary Share of £0.06 were redenominated and split into New Ordinary Shares of £0.001 each and Deferred Shares of £0.059 each. Subsequently, the Company issued 2,500,000 Ordinary Shares of £0.001 at a premium of £0.049 per share.

During the reporting period, the Company issued 6,000,000 Ordinary Shares of £0.001 were issued at £0.04 per share, raising £240,000.

The Deferred Shares are not entitled to receive dividends or other distributions, does not entitle the holder to vote or speak at General Meetings of the company, and provide a return of assets on a winding up after the repayment of the capital paid-up on the Ordinary Shares.

## 12. RELATED PARTY TRANSACTIONS

The following significant related party transaction took place during the year on terms agreed between the parties:

	As at 31 March 2016	As at 30 September 2014
	£	£
Honourfield International Limited		
Amount due from subsidiary	-	28,741
Amount due to subsidiary	(568,204)	(666,945)
Amount due from director	48,119	-
Management fee income from a subsidiary	36,000	24,000

The amount due from a subsidiary represents an amount advanced by Company to a subsidiary. It is unsecured, interest free and has no fixed terms of repayment.

The amount due to a subsidiary represents payments made by the subsidiary on behalf of the Company. It is unsecured, interest free and has no fixed terms of repayment.

# Notes to the Financial Statements

## 13. CONVERTIBLE LOAN NOTES

Convertible loan notes A (the "A Loan Notes") and Convertible loan notes B (the "B Loan Notes") were issued on 27 August 2010 and 25 February 2011 respectively. The loan notes are convertible into ordinary shares of the Company at any time between the date of issue of the notes and their maturity date of 26 February 2013 at £0.26 per share.

The effective interest rate used to calculate the interest charged for both A and B loan notes to the income statement was 12%.

On 26 March 2013 the Company announced that it proposed, conditional upon admission and in part on shareholder approval, to raise approximately £0.7 million (before expenses) through the issue of £125,000 of convertible loan notes (the "New A Loan Notes") and 8,331,429 new ordinary shares of 6 pence each, to be issued at 7 pence each. Subsequently at the 2013 AGM, the shareholders gave their approval and the securities were admitted to listing.

The required majority of holders of A and B loan notes agreed to amend the terms of the loan note instruments to which such loan notes relate such that the redemption date was 31 August 2014. The New A Loan Notes will be issued subject to the terms of the A loan note instrument and the New A Loan Notes will have the same terms as the A and B Loan Notes currently in issue.

Key terms of New A Loan Notes (and the revised A and B Notes) are:

- Conversion price is set at price of 9 pence;
- Interest remains at 10% p.a. compounded semi-annually and rolled up to redemption;
- Interest may, at the election of the loan note holders, be paid through the issue of new ordinary shares;
- Redemption premium equal to 1.5% per month, from date of new loan note instrument, if Company chooses to redeem early; and
- Redemption date of 31 August 2014.

On 29 August 2014, the required majority of holders of the A and B loan notes agreed to extend the redemption date to 31 December 2014, based on the following terms:

- A repayment premium equal to 10% of the principal amount outstanding if the principal is repaid between 1 September 2014 and 30 October 2014
- A repayment premium equal to 20% of the principal amount outstanding if the principal is repaid between 1 November 2014 and 31 December 2014
- Redemption date of 31 December 2014.

The loan notes were not redeemed or converted on 31 December 2014 and are now in default. The Company was in discussions with a number of the loan-note holders and has recently visited China to expedite the redemption of the outstanding loan stock. On 16 December 2015, the Company reached an agreement with the loan-note holders, the amount due in respect of the loan-notes has been capped at £4 million. Accordingly, this amount has been included in the financial statements.

The net proceeds received from the issue of the convertible loan notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company as follows:

	<b>As at 31 March 2016</b>	<b>As at 30 September 2014</b>
	<b>£</b>	<b>£</b>
Convertible loan notes issued	2,451,942	2,451,942
Equity component	78,067	78,067
<i>Liability component at date of issue</i>	<u>2,373,876</u>	<u>2,373,876</u>
Interest charged to date	2,028,091	1,124,869
Interest paid to date	(401,967)	(401,967)
Liability component at the reporting period	<u>4,000,000</u>	<u>3,096,778</u>

# Notes to the Financial Statements

## 14. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company consists of borrowings and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

## 15. FINANCIAL RISK MANAGEMENT

The Company uses a limited number of financial instruments, comprising cash, short-term deposits, borrowing and various items such as other receivables and payables, which arise directly from operations.

### Financial risk factors

The Company's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

#### a) Currency risk

The Company does not operate internationally and its exposure to foreign exchange risk is limited to the transactions and balances that are denominated in currencies other than Pounds Sterling.

#### b) Credit risk

The Company does not have any major concentrations of credit risk related to any individual customer or counterparty.

#### c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and available funding through an adequate amount of committed credit facilities. The Company ensures it has adequate resource to discharge all its liabilities. The directors have considered the liquidity risk as part of their going concern assessment. (See note 2.16.1).

#### d) Cash flow interest rate risk

The Company has no significant interest-bearing liabilities and assets except for the convertible loan notes as disclosed in note 14.

### Fair values

Management assessed that the fair values of cash and short-term deposits, other receivables, trade and other payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

# Notes to the Financial Statements

## 16. FINANCIAL INSTRUMENTS

The Company's principal financial instruments comprise other receivables and other payable. The Company's accounting policies and method adopted, including the criteria for recognition, the basis on which income and expenses are recognised in respect of each class of financial assets, financial liability and equity instrument are set out in Note 2. The Company does not use financial instruments for speculative purposes.

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

	As at 31 March 2016	As at 30 September 2014
	£	£
<b>Financial assets</b>		
<b><i>Loan and receivables</i></b>		
Other receivables	1,546	21,567
Amount due from subsidiary	-	28,741
Total financial assets	<u>1,546</u>	<u>50,308</u>
Financial liabilities measured at amortised costs		
Amount due to subsidiary	568,204	666,945
Trade and other payables	207,334	132,156
Total financial liabilities	<u>775,538</u>	<u>799,101</u>

There are no financial assets that either past due or impaired.

## 17. CONTROLLING PARTY

The Company is not controlled by any one party.

## 18. SUBSEQUENT EVENTS

A summary of the events which have occurred since 22 April 2015 is included in the Chairman's statement and is updated to September 2017. Within the Chairman's statement it is reported that the Company has received in July/August 2017 RMB 3,000,000 (approximately £330,000) which will be used to assist in regularising the Company's statutory obligations, and also assist in the ongoing work to reach a financial restitution from Wang.

## 19. SUBSIDIARY UNDERTAKINGS

As at 31 March 2016, the Company had the following subsidiaries by virtue of its shareholding:

Name of Subsidiary	Date and place of establishment	Percentage of equity attributable to Sorbic International	Principal activities
Honour Field International Limited ("Honour Field") <u>Held by Honour Field</u>	3 July 2007 BVI	100%	Holding Company
Linyi Van Science and Technique Co., Ltd ("LVST") <u>Held by LVST</u>	17 July 2001 PRC	100%	Production and sale of food preservatives
Inner Mongolia Van Science and Technique Company Limited ("Inner Mongolia")	22 January 2010 PRC	100%	Production and sale of food preservatives

# Notes to the Financial Statements

## 19. SUBSIDIARY UNDERTAKINGS (continued)

	As at 31 March 2016			As at 30 September 2014		
	Amount due from subsidiary	Shares in group undertakings	Total	Amount due from subsidiary	Shares in group undertakings	Total
	£	£	£	£	£	£
Cost at 1 October	4,822,522	20,983,735	25,806,257	4,822,522	20,983,735	25,806,257
Reclassification	-	-	-	-	-	-
Cost at 30 September	4,822,522	20,983,735	25,806,257	4,822,522	20,983,735	25,806,257
Provision for impairment						
Beginning of period	-	(12,750,000)	(12,750,000)	-	(12,750,000)	(12,750,000)
Charge for the year	(4,822,522)	(8,233,735)	(13,056,257)	-	-	-
End of period	4,822,522	(20,983,735)	(25,806,257)	-	(12,750,000)	(12,750,000)
Carrying amount	-	-	-	4,822,522	8,233,735	13,056,257

Investment in subsidiary companies is stated at cost, less provision for diminution in carrying value. The Board conducts annual impairment review of its investment to ensure that the Company's assets are not carried at more than their recoverable amount. As described in note 2.2, the directors consider the loss of control of the overseas subsidiary undertakings, which indicates the carrying value would be irrecoverable. Accordingly, the full impairment provision was recognised in these financial statements.