

# Sorbic International Plc

Company number 06280431

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# Highlights of the Year

for the year ended 30 September 2010

## SUMMARY

- Revenue for the year was £12.05 million (2009: £14.45 million). This reduction was as a result of a number of power outages and environmental factors which in aggregate resulted in approximately 40 lost days of production.
- Net profit after tax and exchange differences of £0.8 million (2009: £3.5 million).
- Cash balances at 30 September 2010 of £5.7 million.
- The issue of convertible loan notes announced in August 2010 which will provide £3.5 million when fully received to enable the Group to complete the new factory.
- Construction is on track at the new facility in Inner Mongolia, with the outer building almost completed. This will double existing capacity.
- Production at the site is scheduled to start in late summer / early autumn 2011.
- Gross profit margin for the year of 18.5% (2009: 35.0%) due to the increase in unit cost and inefficiencies caused by lost production.
- Basic earnings per share of 1.04 pence (2009: 9.87 pence).

John McLean, Non-Executive Chairman of Sorbic, commented "Despite a number of challenges during the year, including pressure on margins, environmental difficulties respects. The new production facility in Inner Mongolia is on track to commence production in late summer / early autumn 2011, and this will be key to driving growth. Strong demand for the product continues both in the global market, and also increasingly domestically, and this underpins the long-term prospects for the Group."

[www.sorbicinternational.com](http://www.sorbicinternational.com)

# Directors, Secretary and Advisers

## Directors

**John Nigel Major McLean**  
Non-executive Chairman

**Wang Yan Ting**  
President & Chief Executive Officer

**Ray Ang Wee Boon**  
Non-executive Director

**Nicholas Michael Norman Smith**  
Non-executive Director

**Ng Shin Ju Ryan**  
Chief Financial Officer

## Audit Committee

**John Nigel Major McLean**  
Chairman

**Nicholas Michael Norman Smith**

## Remuneration Committee

**Nicholas Michael Norman Smith**  
Chairman

**Wang Yan Ting**

**Ray Ang Wee Boon**

## Company Secretary

**Nigel Cartwright**

## Company Number

06280431

## Registered Office

3rd Floor, 49 Whitehall  
London  
SW1A 2BX

## Nominated Adviser and Broker

**FinnCap**  
60 New Broad St  
London  
EC2M 1JJ

## Registrars

**Computershare Investor Services PLC**  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 6ZZ

## Auditor

**Crowe Clark Whitehill LLP**  
St Bride's House  
10 Salisbury Square  
London  
EC4Y 8EH

## Legal Advisers

**Fasken Martineau LLP**  
17 Hanover Square  
London  
W1S 1HU

## Stephenson Harwood, Singapore

1 Raffles Place  
#12-00 OUB Centre  
Singapore 048616

## Public Relations Advisers

**Abchurch Communications Limited**  
125 Old Broad Street  
London  
EC2N 1AR

# Chairman's Statement

## INTRODUCTION

2010 was a year of significant challenges. The year began with very fragile consumer confidence and revenue fell with production days lost to external events such as interruptible power supplies and environmental issues, as previously announced. In response, the management team has worked hard to negotiate with the local authorities for priority to the power supplies and modified the public holiday shutdown period to reduce turnaround time and improve operational efficiency. However, it is estimated that approximately 40 days of production were lost. As a consequence, margins were reduced over the year. Despite the production challenges, the Group continues to experience significant levels of demand and ended the financial year being profitable and cash generative. I believe that this is a credible achievement in the current economic climate and a testimony to the work and commitment of both the management and employees.

On 27 August 2010, the Company announced that it had issued convertible loan notes to secure £3.5 million of new term facilities through the injection of £2.93 million of new funds and the conversion of shareholders' loans of £0.53 million into the Group when fully received. These funds would allow Sorbic to complete its new factory and increase the Group's production capacity to capitalise on the anticipated future growth in China. As announced on 16 December 2010, one of the lenders in respect of the Loan Notes is Hermes Holdings Ltd ("Hermes") based in Seoul, Korea. Hermes entered into a legally binding agreement to lend US\$2.5 million (approximately £1.6 million) under the terms of the Loan Notes and is due to pay the Company directly. Hermes requires regulatory approval to move the funds out of Korea. Representatives of the Company met with Hermes on 10 December 2010 and the regulatory matters are expected to be resolved in early 2011.

On 25 February 2011, the Company announced that it had conditionally raised a further £1.6 million through the issue of £0.56 million of convertible loan notes and the issue of 5,175,000 ordinary shares of 6 pence each at a price of 20 pence per share. The proceeds of the fundraising are to be utilised to fund construction of the Company's new production facility in Ulanqab City, Inner Mongolia. Following the receipt of these funds, it is the Company's intention to list the convertible loan notes on PLUS Markets.

The consolidated results for year ended 30 September 2010 show turnover of £12.05 million (2009: £14.45 million), profit before tax of £0.60 million (2009: £3.30 million) and profit after tax and exchange differences of £0.8 million (2009: £3.5 million).

Gross margin decreased from 35.0% to 18.5%, while net profit margin decreased from 19.3% to 2.9%, due to the increase in unit cost of production caused by the disruption outlined above. The effect of the production limitations in Linyi has become apparent in FY2010, which reaffirms the compelling reasons behind the Group's decision to locate to Inner Mongolia. The availability of rich resources like coal, electricity and water at a lower cost compared to the existing facilities is expected to improve production efficiency and gross margins.

The Group achieved consolidated earnings per share of 1.04 pence (2009: 9.87 pence).

The Group is now very well placed to increase the scale of its production. This will broaden Sorbic's competitive position and expand its market share in China as part of the strategy to build sustainable long-term growth.

## FOOD PRESERVATIVES MARKET

A primary driving force in the global food market is the consumer income growth, lifestyle changes brought about by urbanisation and changing family structures have resulted in dietary changes among consumers worldwide. Driven by increased purchasing power and the cost of time required for preparing food, the demand for higher value and processed food products has continued to expand globally.

In the mature markets of high-income countries, the processed food market has continued to grow while sales in eastern European countries, Latin America and developing countries in Asia are undergoing rapid growth. Markets in countries like China are at the early stages of transformation with multinational retail chains and packaged food products now penetrating the rural areas.

The US food preservatives market is estimated to be worth \$7.2 billion annually and growing at 3.5% per annum while the Chinese food preservatives markets earned revenues

# Chairman's Statement

of \$370.0 million in 2007 and estimates this to reach \$829.4 million in 2014 [Source: Frost & Sullivan- Chinese Food Preservatives Markets]

The scope for long-term growth in the food preservative market in China is significant

## DOMESTIC CHINESE MARKET

Domestic sales accounted for less than half of the total sales in FY2010. However, it is recognised that domestic demand may, in part, drive future growth and represents a significant opportunity. For example, China currently consumes barely 2% per head of the manufactured carbonated soft drink equivalent of their American counterparts. Similarly, the penetration of Western shopping habits in China has scope to grow, offering another route for manufactured food and beverages to increase market share.

The Chinese food preservatives market is capitalising on the success of ready-to-eat foods, which are becoming increasingly popular with urbanites, leading to increasingly busy lifestyles. These products function as additives, ensuring the safety of a variety of foods.

Rising environmental consciousness and safety concerns are driving Chinese consumers to increasingly choose natural food additives to synthetic ones. The most frequently used organic preservatives, including sorbates, are experiencing strong demand from both international and local markets.

The Group's production and quality standards are maintained at the highest level, compliant with all key international food production standards, which place Sorbic at the forefront of suppliers to the major international food manufacturers.

## ECONOMIC OUTLOOK FOR 2011

While the beginning of 2010 was dominated by concerns over the economy with the impact of the financial crisis, there are indications that the global economic outlook may now be improving. The Company has the advantage of having its operations located at the world's fastest rising economy, China. Evidence of China's ascension is widespread. Three years ago, China did not have a single bank among the world's top 20, measured by market capitalisation; today the top three are Chinese.

Whilst China's growth is expected to gradually slow down as the government withdraws its anti-crisis stimulus, the expansion is still projected to be 9.6% for 2011, driven by domestic demand. The food additive industry in China remains highly competitive. Accordingly, the Group will look to further strengthen its robust market position as one of the

leading producers in the world with the completion of the new lines in Inner Mongolia.

## NEW PRODUCTION LINES – INNER MONGOLIA

Key to driving the Group's growth is its expansion into Ulanqab city, Inner Mongolia. The new facility will increase the production capacity from 7,500 to 15,000 tonnes per annum, with the addition of the two new lines.

Once they are operating at full capacity of 7,500 tonnes p.a., the two new lines will potentially add up to £19 million of revenue at current prices. It is anticipated that production in the early stages will be more heavily weighted towards potassium sorbate as it typically generates a higher gross margin. Management expects pricing to remain stable in 2011 and operating margins from the new facility are anticipated to be significantly higher than the existing plant.

Construction of the new factory is on schedule and is expected to be completed by late summer / early autumn 2011.

## OPERATIONAL OUTLOOK FOR 2011

With the building structure almost completed, the next phase of development for the Group will be installation and getting the equipment in place for production. With Inner Mongolia entering winter and temperatures below zero, exterior installation work will be minimal until the Spring.

Subject to the receipt of the full funds from the convertible loan notes, the Company still expects to begin trial production at the new factory at the end of summer / autumn 2011. The additional production capacity will absorb a greater level of working capital and consequently Sorbic will look to secure additional bank facilities in 2011. Management will monitor and manage the speed at which the facility operates depending on the availability of this working capital. The global recovery has been underway for some time now, although growth in many economies remains weak and uneven. Against such a background, the challenge for FY2011 will be to maintain price stability and market share, while capitalising on growing domestic demands.

The Board would like to thank the management and the employees for their hard work and their continued dedication to the Group. On completion of the new facility, Sorbic will be well placed to benefit from further growth in the demand for food additives, both internationally and from an increasingly important domestic market.

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**John McLean**  
Chairman

4 March 2011

## Board Of Directors

### *John McLean (Non Executive Chairman)*

John McLean, aged 57, has a successful track record across a number of sectors in developing growing companies and he has also managed operations globally with specific expertise in China, the USA, and Europe. John was originally a chartered accountant with Coopers & Lybrand in both London and New York.

He is Chairman of Albany China, which focuses on investments into growing companies with high quality local management teams based in the PRC. Albany operates from offices in London and Qingdao, North Eastern China. John is also Chairman of AIM-listed China Food Company plc which is based in Shandong province, North Eastern China.

In 1998, he carried out a strategic review of Gamma Holdings NV UK interests, including Sanderson, the textile and wallpaper company. John became managing director of Sanderson and successfully implemented a turnaround and disposal plan. From 1992 to 1996, he was employed as General Manager of ICS and co-led a management buy-out of the company with 3i Group plc prior to its successful disposal to Hays plc in 1996.

### *Wang Yan Ting (President and Chief Executive Officer)*

Wang Yan Ting, aged 45, is the Chairman, Chief Executive Officer and founder of LVST and is responsible for implementing its strategy and direction. Mr Wang has more than 20 years of business development experience and nearly eight years experience in the food preservatives industry. Notably, Mr Wang spent a number of years as general manager of Linyi Zhongqiao Property Development Limited, a Chinese property developer. Thereafter, he was appointed managing director of Linyi Huasheng Trading Limited, a Chinese company principally involved in the manufacture of chemicals and plastics. Mr Wang also served in the police force for four years.

### *Ray Ang Wee Boon (Non-executive Director)*

Ray Ang, aged 39, was the Senior Vice President of Hermes Capital Limited, a Hong Kong based company involved in securities, corporate finance advisory and other related services. Mr Ang started his career in finance with Hong Kong Shanghai Banking Corporation. With more than 14 years of experience in personal and corporate finance, he works from offices in Singapore, Hong Kong and mainland China. He holds a Master's degree in Business Administration from Macquarie University, Sydney, Australia.

### *Nicholas Smith (Non-executive Director)*

Nicholas Smith, aged 59, trained as an accountant with Ernst and Young. He joined the Jardine Fleming Group in Hong Kong in 1986, serving at various times as co-head of Investment Banking, finance director and member of the executive committee. He became a director of Robert Fleming International in 1998 and director of Origination, Investment Banking. His responsibilities combined the strategic direction of the international M&A business and fee generation in relation to European multinational corporations. He currently serves as Chairman of Ophir Energy plc, and non executive director of Asian Citrus Holdings Ltd, for whom he is Chairman of the Remuneration Committee. PLUS Markets Group plc, for whom he is Chairman of the Audit Committee and Japan Opportunities Fund II Limited, for whom he is Chairman of the Audit Committee.

### *Ryan Ng (Chief Finance Officer)*

Ryan Ng, aged 35, is a member of the Association of Chartered Certified Accountant (ACCA) and a Certified Public Accountant (CPA) of Singapore. He started his career with KPMG and has over 8 years of experience in commercial finance, audit, consultancy and advisory services for a range of companies including public listed companies, financial institutions and multinational companies. He was the CFO of Hong Kong based Zumera Group of companies, a lifestyle and entertainment group with presences in Hong Kong, Shanghai and Beijing before joining Sorbic International. He holds a BS (Hons) in Applied Accounting and a BA in Psychology and Japanese Studies.

# Directors' Report

The Directors are pleased to present their report to the members together with the audited financial statements of Sorbic International Plc (the "Company" or "Sorbic International") and its subsidiaries (the "Group") for the year ended 30 September 2010

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture and distribution of food preservatives, namely Sorbic Acid and Potassium Sorbate

During the year under review the Group incorporated a further wholly owned subsidiary in Inner Mongolia, a province in the Peoples Republic of China

The results of the Group are set out in detail on page 19

## BUSINESS REVIEW

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

## FINANCIAL REVIEW

Other than explained below performance for the year ended 30 September 2010 was broadly in line with expectation and a comparison to the year ended 30 September 2009 is summarised below

	30 September 2010	30 September 2009	Percentage Change
Turnover	£12 05m	£14 45m	-16.6%
Profit from operations	£0 78m	£3 46m	-77.5%
Profit before taxation	£0 60m	£3 30m	-81.8%
Total comprehensive income net of tax*	£0 81m	£3 53m	-77.0%
Cash and cash equivalents	£5 66m	£5 99m	-5.5%
Net assets	£13 88m	£13 02m	+6.6%
Earnings per share – basic	1 04p	9 87p	-89.5%
Earnings per share – diluted	0 90p	9 66p	-90.7%

\* Includes exchange gain of £464K (FY2009 £742K)

## KEY PERFORMANCE INDICATORS

The Group's performance through the year is reflected in our Key Performance Indicator. We failed to meet our initial financial targets because of the stoppages due to external factors. However, the completion of the Inner Mongolia building structure represents a step-forward in our expansion plans. The Directors identified revenue, margins and working capital as the major KPIs of the Group.

The Group must achieve a consistently strong financial performance if it is to continue investing in the future success of the business and provide adequate shareholder returns.

# Directors' Report

## *Turnover*

FY2010 was expected to be a tough year financially, given the reduction in long-term order books, we expected a reduction in turnover. The rapid decline of the European economic situation led us to revise our forecasts through the year. Turnover of the Group for the year ended 30 September 2010 was £12.05 million (2009: £14.45 million), representing a drop of 16.6%. In local currency terms, there was a drop of 16.1%. The average GBP/RMB exchange rate for 2010 was 10.6035 (2009: 10.5397).

## *Margins*

Gross margin and operating margin are used to measure the Group's financial performance. Management tried to maintain a stable gross profit margin throughout the year. However, since December 2009, the Company has to incur an additional 3% of total cost to fulfil an environmental requirement imposed by the local government that cannot be passed on to customers. That coupled with inefficiency from disruptions to production has meant that we posted a lower gross profit margin of 18.5% for FY2010 (FY2009: 35.0%). Whilst in the short term the Group's profitability will continue to be impacted by disruptions such as power outages, the move to the Inner Mongolia site underpins Sorbic's growth prospects for the longer term.

## *Working Capital*

Working capital is managed through closely monitoring the turnover of the constituent parts measured as a comparison of inventory days, accounts receivable days and accounts payable days. In FY2010 and FY 2009, the respective days were as follows:

	2010	2009
Inventory	7	14
Accounts receivable	47	35
Accounts payable	13	14

Despite the increase in accounts receivable days, there are no outstanding accounts receivable overdue at the year-end. Inventory turnover was halved as customers' demand outstrips supplies due to the production stoppages.

As at 30 September 2010, the Group held cash balance of £5.66 million.

## *Group Statement of Comprehensive Income*

With continuous demands for the Group's products, turnover for the year ended 30 September 2010 reached £12.05m compared with year ended 2009 results of £14.45m. However, net profit for the year ended 30 September 2010 decreased by 87.5% to £0.35m (Year ended 30 September 2009: £2.79m). A review of 2010 performance is given in the Chairman's statement.

## *Group Statement of Financial Position*

As at 30 September 2010, Group's net assets stood at £13.88 million (30 September 2009: £13.02 million).

## **RISKS AFFECTING THE GROUP**

### *General economic climate*

The general economic climate is volatile and is affected by numerous factors which are beyond the Group's control and which may affect its operations, business and profitability. With the slowing world economy, particularly in the United States, Europe and the PRC, there can be no guarantee that the Group will sustain the level of growth it has experienced in recent years.



# Directors' Report

## *Competition*

The Group operates in a competitive market. In particular, some competitors may have access to greater financial resources and technical facilities than the Group, which may give them a competitive advantage. Due to the economic climate, competitors may also reduce prices which may affect the Group's margins.

## *Dependence on key executives and personnel*

The future performance of the Group will depend on its ability to retain the services and personal connections or contacts of key executives and to recruit, motivate and retain other suitably skilled, qualified and industry experienced personnel. Such key executives are expected to play an important role in the development and growth of the Group, in particular by maintaining good business relationships with regulatory and governmental departments and the Group's existing customers, distributors and suppliers.

## *Dependence on licences, registrations, certifications and accreditations*

Certain business operations of the Group are dependent on various licences, registrations, certifications and accreditations. The Directors are not aware of any occasion where the Group has been unable to renew its licences or registrations, or had its certifications or accreditations revoked.

## *Failure to meet health & safety, hygiene, environmental and other regulatory standards and approvals*

The Group's businesses are subject to annual inspections and periodic checks by the relevant authorities in the People's Republic of China ("PRC") to ensure that their activities comply with applicable health and safety, hygiene and other environmental standards. In the event that they fail to pass such inspections or checks or otherwise fail to comply with and meet the requisite standards, the relevant authorities may require them to suspend their operations temporarily until such time as they are able to meet the requisite standards or may impose penalties and fines on them for the breach or may even withdraw or suspend their licences or permits or otherwise restrict or prohibit them from continuing their operations, all of which may have an adverse effect on the business and operations, financial results or financial position of the Group.

## *Foreign exchange risks*

The Group's dominant transactional currency is RMB, including the cost of materials which are imported by its suppliers. However, the Group is exposed to fluctuations in the price of imported raw materials and any future significant fluctuations in foreign exchange rates may have a material impact on its financial performance in the event that the Group is unable to pass on the increased costs to its customers.

## *Exposure to environmental liability*

The PRC national and provincial environmental protection rules and regulations impose certain fees for the discharge of waste material and penalties or fines for environmental pollution. These rules and regulations also grant the relevant environmental regulatory bodies the power to order the closure of any facility which causes serious environmental problems. Although the production processes carried on at the Group's facilities in the PRC do not discharge large amounts of pollutants into the environment, there is no guarantee that new requirements promulgated by the relevant authorities in the PRC will not disrupt the Group's production or require the Group to incur additional expenses in relation to environmental protection.

## *Future funding requirements*

Although not presently anticipated by the Group, they may, in the future, need to obtain additional debt or raise additional equity funds to finance its working capital or capital expenditure requirements or to make acquisitions and finance its growth through future stages of development.

# Directors' Report

## *Financial risk management*

The Board reviews and agrees policies for managing financial risks. The financial risk management objectives and policies of the Group are set out in note 26 to the financial statements.

## SHARE CAPITAL

There were no new shares issued during the year. The total number of shares in issue at the year end was 33,388,500 and at 4 March 2011 was 36,963,500.

## DIVIDENDS

The directors do not recommend payment of a dividend in respect of the period ended 30 September 2010.

## DIRECTORS

The following directors served the Company during the period:

John Nigel Major McLean	(Non-executive Chairman)
Wang Yan Ting	(President and Chief Executive Officer)
Nicholas Michael Norman Smith	(Non-executive Director)
Ray Ang Wee Boon	(Non-executive Director)
Ng Shin Ju Ryan	(Chief Financial Officer)

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 23.

## EMPLOYEES

The Board recognises that the Group's employees are its most important asset. Employees are encouraged to train and develop their careers.

The Board maintains good working relations with employees by the use of clear channels of communication. The responsibility for communication with the workforce rests with the managers through formal and informal meetings.

The Group is committed to achieving equal opportunities and to complying with anti-discrimination legislation.

## DISABLED EMPLOYEES

The Group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, whenever possible, for re-training employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and ability.

# Directors' Report

## ENVIRONMENTAL POLICY

The Group is committed to operating in an environmentally responsible manner and endeavours to adopt the best practicable means to reduce or eliminate polluting releases to the environment or in the disposal of waste products. The Group is committed to complying with environmental legislative requirements.

## CREDITOR PAYMENT POLICY

It is the Group's policy that payments to suppliers are made in accordance with all relevant terms and conditions. The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services. At the balance sheet date, there were 13 (2009: 14) days' purchases outstanding, calculated on the ratio of average trade creditors to total cost of sales.

## GENERAL MEETING

The next General Meeting will be held at the Company's nominated adviser's office (60 New Broad St London EC2M 1JJ) on Saturday 26 March, 2011.

## SUBSTANTIAL SHAREHOLDING

The Company has been notified that the following shareholders' interests exceeded 3% of the Company's issued ordinary share capital at the date of this report.

Shareholder	Ordinary shares	Percentage of issued share capital
Prime Mega International Limited	20,160,000	54.5%
Albany Capital Group Limited	6,810,975	18.4%
Hermes Financial Group (BVI) Limited	2,222,222	6.0%

## SHARE OPTIONS OUTSTANDING

As at 30 September 2010, Hermes Capital Limited and JM Finn Capital Markets Limited had been granted 400,000 and 200,000 share options respectively, pursuant to services provided as disclosed in note 22.

## DONATIONS

The Group made no charitable or political donations during the period.

# Directors' Report

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards, as adopted by the EU ("IFRS") and applicable law. Under Company Law, the directors must not approve the financial statements unless they are 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 directors are 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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of both the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

They are further responsible for ensuring that the Report of the Director and other information included in the Annual Report and financial statements is prepared in accordance with applicable law in the United Kingdom

In so far as each director is aware

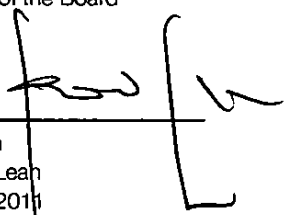
- there is no relevant audit information of which the Company's auditor is unaware, and
- each director has taken all steps that he might reasonably expected to have taken as a director in order to make himself aware of any relevant information needed by the auditor in connection with preparing their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

  
Chairman  
John McLean  
4 March 2011

# Directors' Remuneration Report

The remuneration committee presents the Directors' remuneration report for the year ended 30 September 2010

Although not all required by the AIM Rules, the Directors have chosen to provide directors' remuneration disclosures in this report which they consider valuable to the reader

The Group has a Remuneration Committee ('the Committee'), chaired by Nicholas Smith, an independent non-executive director, and consisting of Ray Ang Wee Boon and Wang Yan Ting. The committee has met twice during the year with 100% attendance by its members

The remuneration committee considers that throughout the year under review, the Company has complied with Section A of the best practice provision annexed to the listing rules. In addition, in framing its remuneration policy the committee has given full consideration to the matters set out in Section B of those provisions

The Board has not been provided with advice or services by any person in respect of its consideration of the Directors' remuneration

## REMUNERATION POLICY

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the necessary calibre and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Remuneration Committee. The remuneration of the Non-executive Directors is determined by the Board within limits set out in the Articles of Association. Executive Directors are entitled to accept appointments outside the Company providing the Board's permission is sought

The non-executive Directors remuneration is determined by the Board, having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual directors fulfill in respect of Board and Committee responsibilities and the time committed to the Company's affair

The policy of the Board is to review the level of Directors' fees and remuneration from time to time. During the year ended 30 September 2010, the remuneration committee carried out a review of the level of directors' fees and remuneration, and decided that the annual fees should remain unchanged for the present

## TERMS OF APPOINTMENT

The Executive Directors have service contracts with the Company or subsidiary in addition to their appointment as directors of the Company. The Company's policy is that directors have contracts for an indefinite term, providing for a maximum of six months notice

The terms of their appointment provide that at every annual general meeting one-third of the Directors are bound to retire and be subjected to reappointment by Shareholders. The terms also provided that the contract is to continue until termination by either party giving six months' notice or by resolution of the shareholders. There are no liquidated damages or other compensation payable by the Company upon early termination of the directors

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Executive remuneration packages are prudently designed to attract, motivate and retain directors of the necessary calibre and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Remuneration Committee. The remuneration of the Non-executive Directors is determined by the Board within limits set out in the Articles of Association. Executive Directors are entitled to accept appointments outside the Company providing the Board's permission is sought.

The non-executive Directors remuneration is determined by the Board, having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual directors fulfill in respect of Board and Committee responsibilities and the time committed to the Company's affairs.

The policy of the Board is to review the level of Directors' fees and remuneration from time to time. During the year ended 30 September 2010, the remuneration committee carried out a review of the level of directors' fees and remuneration, and decided that the annual fees should remain unchanged for the present.

## TERMS OF APPOINTMENT

The Executive Directors have service contracts with the Company or subsidiary in addition to their appointment as directors of the Company. The Company's policy is that directors have contracts for an indefinite term, providing for a maximum of six months' notice.

The terms of their appointment provide that at every annual general meeting one-third of the Directors are bound to retire and be subjected to reappointment by Shareholders. The terms also provided that the contract is to continue until termination by either party giving six months' notice or by resolution of the shareholders. There are no liquidated damages or other compensation payable by the Company upon early termination of the directors.

# Directors' Remuneration Report

Executive	Date of Contract	Notice Period (Months)
Wang Yan Ting	30 September 2008	6
Ryan Ng Shin Ju	1 April 2009	6
Non-Executive		
John Nigel Major McLean	30 September 2008	6
Nicholas Michael Norman Smith	30 September 2008	6
Ray Ang Wee Boon	1 May 2009	6

## DIRECTORS' REMUNERATION DETAILS

	Salary	Benefits	Bonuses	Fees	Other	2010	2009
	£	£	£	£	£	£	£
John Nigel Major McLean	-	-	-	32,292	21,110	53,402	55,631
Nicholas Michael Norman Smith	-	-	-	30,000	3,107	33,107	33,071
Wang Yan Ting	113,170	-	-	10,000	432	123,602	96,471
Ray Ang Wee Boon	78,244	-	-	10,000	16,351	104,595	129,021
Ryan Ng Shin Ju	62,188	-	-	10,000	4,221	76,409	42,042

In the year under review no share options and incentive schemes have been granted to the Directors

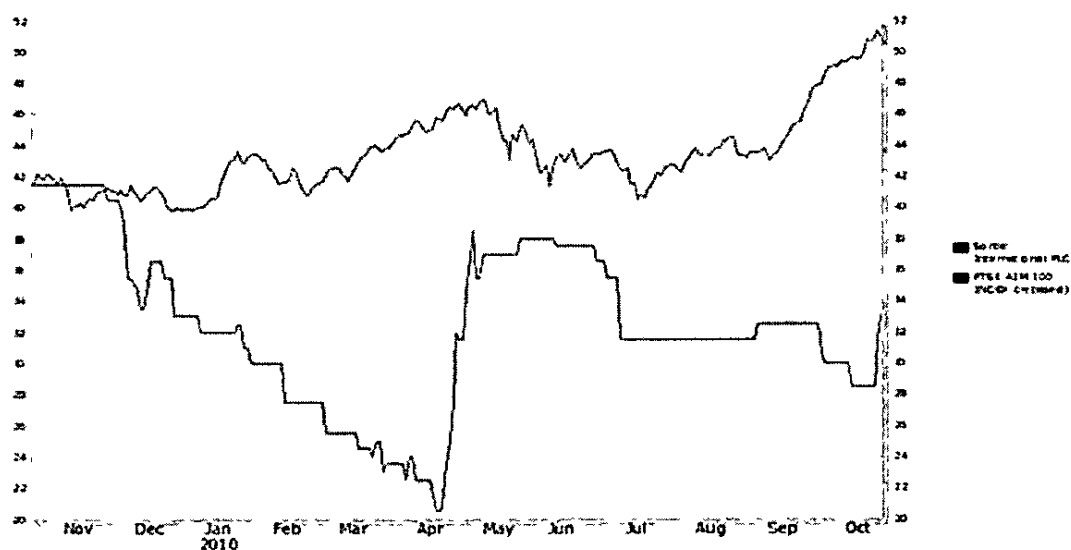
Other benefits paid to directors during the year relate to HM Revenue and Custom ("HMRC") national insurance for John McLean and Nicholas Smith, and Central Provident Fund (CPF) contributions for Ray Ang and Ryan Ng

The Group's principal Chinese subsidiary, LVST is required to participate in the employee pension schemes operated by the relevant local government authorities in the PRC £367 was paid during the year for Wang Yan Ting No other directors received pension payments

# Directors' Remuneration Report

## PERFORMANCE GRAPH

The following graph shows the Company's performance measured by total shareholder return (TSR) for the 12 months to 30 September 2010 compared with the performance of the FTSE AIM 100. TSR is the product of the share price plus reinvested dividends (No dividend was declared during the year). The FTSE AIM 100 index has been selected for this comparison because it is the principal index in the market in which the Company's shares are quoted.



This report was approved by the board of directors on 4 March 2011 and signed on its behalf by

John McLean  
Chairman  
4 March 2011



# Corporate Governance

The Company is committed to observing good standards of corporate governance. In this report, we describe the Company's corporate governance processes and activities with reference to the principles of the Quoted Companies Alliance's Corporate Governance Guidelines.

The main features of the Company's corporate governance procedures are as follows:

## THE BOARD

The Board comprises of John McLean (Chairman), Ray Ang Wee Boon, Wang Yan Ting, Ng Shih Ju Ryan and Nicholas Smith.

The Board meets ten times a year, and otherwise as required. Board Meetings involve detailed reviews of the operations and performance of the group. Additional meetings are convened to discuss matters that require urgent consideration. The Board has defined a schedule of matters specifically reserved for its decision and delegates certain powers to the Board committees and to the executive directors, collectively and individually.

## COMMITTEES OF THE BOARD

The Audit Committee, chaired by John McLean, meets at least twice a year with the Company's external auditor present. Its roles mainly include the review of the financial statements, internal controls and the scope and cost of the audit. The executive directors may also be invited to attend its meetings, where the Committee considers it to be appropriate.

The Remuneration Committee, chaired by Nicholas Smith, is responsible for making recommendations to the Board on remuneration policy for directors, including the setting of directors' salaries and incentive payments. The Committee is also in charge of recommending the granting of share options to employees.

## RELATIONS WITH SHAREHOLDERS

The Board considers it important to communicate a balanced and understandable assessment of the Group's performance and prospects to all investors. The Board maintains frequent contact with institutional investors through regular meetings. The Annual General Meeting ("AGM") is regarded by the Board as an important opportunity to meet and communicate with individual shareholders. Shareholders are given ample time and opportunity at the company's AGM to express their views and put forward their questions to directors or management concerning the Group. The Board welcomes the views of all shareholders, and other stakeholders, which in the first instance should be communicated to the Chairman.

## INTERNAL CONTROL

The Board is ultimately responsible for the Group's system of internal controls, including financial, operational, compliance control and risk management, and for reviewing and monitoring its effectiveness. The system of internal controls is designed to manage and minimise risk, rather than eliminate it. In pursuing these objectives, internal controls can only provide a reasonable and not absolute assurance against material misstatements or loss.

The Group's system of internal control is designed to assist its business objectives, safeguard the group's assets, ensure compliance with regulation and provide reliable financial information. Regular management meetings review all aspects of the Group's business including any inherent or identified risks. Executive management review the significant risks affecting the business and the policies and procedures by which these risks are managed.

The Board has engaged an external party to provide internal audit services who conduct an annual independent review. The internal auditor's plans are reviewed by and discussed with the Chairman of the Audit Committee. Through this process, risks are identified and assessed according to their potential impact and likelihood of occurrence and appropriate actions are assigned.

# Corporate Governance

There are established procedures for budgeting and planning capital expenditure, together with the reporting systems for monitoring the Group's business and performance. There is a rolling three month forecast in place, which is used to assess the financial impact of the Group's strategy, together with a comprehensive budgeting system with an annual budget approved by the Board. A monthly report to the Board details the financial performance of the Group for the preceding period versus budget.

The external auditor who is engaged to express an opinion on the Group's financial statements, also consider the systems of internal financial control to the extent necessary to express that opinion. Internal and external auditors report the results of their work to management, including executive members of the Board and the Audit Committee.

The Board has adopted the Share Dealing Code for the purpose of compliance with Rule 21 of the AIM Rules and takes steps to ensure compliance with that rule by the Group's employees.

The Board confirms that there is a continuing process for identifying, evaluating and managing the risk faced by the Group. Through the procedures outlined above, the Board has considered all significant aspects of control during the period under review and to date.

## GOING CONCERN

Having considered the position of the Group, the Board believes that the Group has appropriate and adequate resources to continue its strategy and operations for the foreseeable future. For this reason they continue to adopt a going concern basis in preparing the financial statements.

# Report of the Independent Auditors

We have audited the financial statements of Sorbic International plc for the year ended 30 September 2010 which comprise the Consolidated and Parent Company Statements of Financial Position, the Consolidated Statements of Comprehensive Income, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes numbered 1 to 32

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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 Directors' Responsibilities, the directors are 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.

## OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements

- give a true and fair view of the state of the consolidated and of the parent company's affairs as at 30 September 2010 and of the consolidated profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

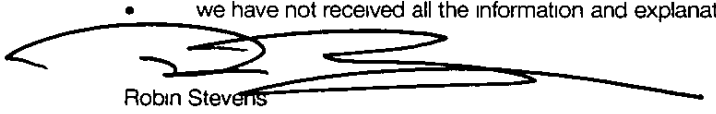
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Report of the Independent Auditors

## 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 parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Robin Stevens  
Senior Statutory Auditor  
For and on behalf of  
**Crowe Clark Whitehill LLP**  
Statutory Auditor  
**London**

4 March 2011

# Report of the Independent Auditors

We have audited the financial statements of Sorbic International plc for the year ended 30 September 2010 which comprise the Consolidated and Parent Company Statements of Financial Position, the Consolidated Statements of Comprehensive Income, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes numbered 1 to 32

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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 Directors' Responsibilities, the directors are 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.

## OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements

- give a true and fair view of the state of the consolidated and of the parent company's affairs as at 30 September 2010 and of the consolidated profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Consolidated Statement of Comprehensive Income

		Year ended 30 September 2010	Year ended 30 September 2009
	Notes	£	£
Turnover	4	12,051,877	14,445,097
Cost of sales		(9,824,465)	(9,392,628)
Gross profit		2,227,412	5,052,469
Distribution and selling expenses		(146,898)	(230,580)
Administrative expenses		(1,302,958)	(1,360,508)
Profit from operations		777,556	3,461,381
Finance income	6	26,415	32,765
Finance costs	7	(201,534)	(190,764)
Profit before tax		602,437	3,303,382
Income tax expense	9	(253,751)	(511,330)
Profit for the year	10	348,686	2,792,052
Other comprehensive income			
- Exchange differences on translating foreign operation		464,335	742,147
Total comprehensive income, net of tax		813,021	3,534,199
Profit attributable to equity holders of the parent		348,686	2,792,052
Total comprehensive income for the year attributable to equity holders of the parent		813,021	3,534,199
Earnings per share			
- Basic (pence)	11	1 04	9 87
- Fully diluted (pence)	11	0 90	9 66

The notes on pages 28 to 68 are an integral part of these financial statements

# Consolidated Statement of Changes in Equity

	Share capital	Share premium	Capital reserve	Surplus reserve	Retained earnings	Share based payment reserve	Foreign currency translation reserve	Reverse acquisition reserve	Shares to be issued- Escrow scheme	Convertible loan notes - equity	Hedging reserve	Total equity attributable to owners of the parent
	£	£	£	£	£	£	£	£	£	£	£	£
At 1 October 2008	1,385,310	14,274,196	2,290,956	408,393	4,210,259	30,000	822,748	(20,911,925)	7,725,000	-	-	10,234,937
Issue of ordinary shares	618,000	7,107,000	-	-	-	-	-	-	(7,725,000)	-	-	-
Share issue costs	-	(301,907)	-	-	-	-	-	-	-	-	-	(301,907)
Net investment hedge	-	-	-	-	-	-	-	-	-	-	(451,353)	(451,353)
Profit for the period	-	-	-	-	2,792,053	-	-	-	-	-	-	2,792,053
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	228,437	40,721	-	-	472,989	-	-	-	-	742,147
Total comprehensive income for the period	-	-	228,437	40,721	2,792,053	-	472,989	-	-	-	-	3,534,200
At 30 September 2009	2,003,310	21,079,289	2,519,393	449,114	7,002,312	30,000	1,295,737	(20,911,925)	-	-	(451,353)	13,015,877
Convertible loan notes - equity	-	-	-	-	-	-	-	-	-	52,269	-	52,269
Profit for the period	-	-	-	-	348,686	-	-	-	-	-	-	348,686
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	88,619	15,798	-	-	359,918	-	-	-	-	464,335
Total comprehensive income for the period	-	-	88,619	15,798	348,686	-	359,918	-	-	-	-	813,021
At 30 September 2010	2,003,310	21,079,289	2,608,012	464,912	7,350,998	30,000	1,655,655	(20,911,925)	-	52,269	(451,353)	13,881,167

# Company Statement of Changes in Equity

For the year ended 30 September 2010

	Share capital	Share premium	Share based payment reserve	Shares to be issued- Escrow scheme	Convertible loan notes - equity	Accumulated loss	Total equity attributable to owners of the parent
	£	£	£	£	£	£	£
As at 1 October 2008	1,385,310	14,274,196	30,000	7,725,000	-	(99,755)	23,314,751
Transactions with owners							
Issue of ordinary shares	618,000	7,107,000	-	(7,725,000)	-	-	-
Share issue costs	-	(301,907)	-	-	-	-	(301,907)
Loss for the period	-	-	-	-	-	(385,741)	(385,741)
Total Comprehensive Income	-	-	-	-	-	(385,741)	(385,741)
As at 30 September 2009	2,003,310	21,079,289	30,000	-	-	(485,496)	22,627,103
Transactions with owners							
Convertible loan note – Equity	-	-	-	-	52,269	-	52,269
Loss for the period	-	-	-	-	-	(468,447)	(468,447)
Total Comprehensive Income	-	-	-	-	-	(468,447)	(468,447)
As at 30 September 2010	2,003,310	21,079,289	30,000	-	52,269	(953,943)	22,210,925



# Consolidated Statement of Financial Position

		As at 30 September 2010	As at 30 September 2009
	Notes	£	£
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	8,612,303	7,778,036
Land use rights	14	3,790,099	2,218,282
		<u>12,402,402</u>	<u>9,996,318</u>
<b>Current assets</b>			
Inventories	15	361,895	325,179
Trade receivables	16	1,331,775	989,697
Prepayments, deposits and other receivables	17	247,102	60,637
Amount due from related company – Hermes Financial	23	301,625	301,625
Cash and cash equivalents	18	5,664,954	5,992,035
Amount due from director		5,775,770	-
		<u>13,683,121</u>	<u>7,669,173</u>
<b>Total assets</b>		<b>26,085,523</b>	<b>17,665,491</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables		190,077	199,495
Advanced payments		139,527	138,339
Accruals and other payables		580,402	554,888
Amount due to directors	19/31	7,937,541	773,244
Borrowings	20	1,412,520	2,729,046
Current tax liabilities		100,508	95,500
Amount due to related company – Hermes Capital	23	93,742	144,727
Amount due to related company – Albany Capital	23	341,070	14,375
		<u>10,795,387</u>	<u>4,649,614</u>
<b>Non-current liability</b>			
Convertible loan notes	24	1,408,969	-
<b>Total liabilities</b>		<b>12,204,356</b>	<b>4,649,614</b>

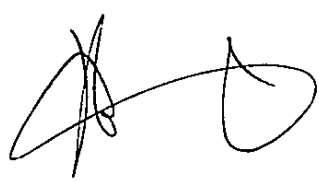
# Consolidated Statement of Financial Position

		As at 30 September 2010	As at 30 September 2009
Notes		£	£
<b>EQUITY</b>			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	2,003,310	2,003,310
Share premium	21	21,079,289	21,079,289
Capital reserves	22(i)	2,608,012	2,519,393
Surplus reserves	22(ii)	464,912	449,114
Retained earnings		7,350,998	7,002,312
Share based payment reserve	22(iii)	30,000	30,000
Reverse acquisition reserve	22(iv)	(20,911,925)	(20,911,925)
Convertible loan notes – Equity	24	52,269	-
Foreign currency translation reserve		1,655,655	1,295,737
Hedging reserve	22(vi)	(451,353)	(451,353)
Total equity		<u>13,881,167</u>	<u>13,015,877</u>
Total equity and liabilities		26,085,523	17,665,491

These financial statements were approved by the directors and authorised for issue on 4 March 2011, and signed on their behalf by



John McLean  
Chairman



Ryan Ng Shin Ju  
Chief Financial Officer

# Company Statement of Financial Position

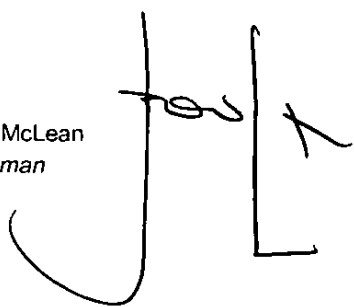
		As at 30 September 2010	As at 30 September 2010
	Notes	£	£
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiary	28	20,983,735	17,983,735
Amount due from subsidiary – Honour Field		-	3,000,000
		<u>20,983,735</u>	<u>20,983,735</u>
<b>Current assets</b>			
Prepayments, deposits and other receivables	17	28,590	4,503
Amount due from Subsidiary – Honour Field	23	2,776,016	2,161,017
Cash and cash equivalents	18	734,853	5,195
		<u>3,539,459</u>	<u>2,170,715</u>
<b>Total current assets</b>			
		<u>3,539,459</u>	<u>2,170,715</u>
<b>Total assets</b>		<u>24,523,194</u>	<u>23,154,450</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accruals and other payables		416,000	458,896
Amount due to subsidiary – Honour Field	23	146,230	54,077
Amount due to related company – Albany Capital	23	341,070	14,375
		<u>903,300</u>	<u>527,348</u>
<b>Total current liabilities</b>			
		<u>903,300</u>	<u>527,348</u>
<b>Non-current liability</b>			
Convertible loan notes	24	1,408,969	-
		<u>1,408,969</u>	<u>-</u>
<b>Total liabilities</b>		<u>2,312,269</u>	<u>527,348</u>

# Company Statement of Financial Position

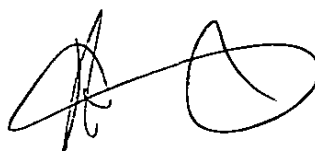
		As at 30 September 2010	As at 30 September 2009
	Notes	£	£
<b>EQUITY</b>			
Capital and reserves attributable to equity holders of the Company			
Share capital	21	2,003,310	2,003,310
Share premium	21	21,079,289	21,079,289
Share based payment reserve		30,000	30,000
Convertible loan notes – Equity	24	52,269	-
Accumulated loss		(953,943)	(485,497)
<b>Total equity</b>		<b>22,210,925</b>	<b>22,627,102</b>
<b>Total equity and liabilities</b>		<b>24,523,194</b>	<b>23,154,450</b>

These financial statements were approved by the directors and authorised for issue on 4 March 2011, and signed on their behalf by

John McLean  
Chairman



Ryan Ng Shin Ju  
Chief Financial Officer



# Consolidated Cash Flow Statement

For the year ended 30 September 2010

		Year ended 30 September 2010	Year ended 30 September 2009
	Notes	£	£
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the period before tax		602,437	2,852,030
Adjustments for			
Amortisation of prepaid land lease payments		49,697	46,669
Depreciation		472,418	469,073
Interest income		(26,415)	(31,177)
Interest expense		202,973	190,375
Gain on disposal of fixed assets		21,537	(1,588)
Operating cash flows		1,322,647	3,525,382
Changes in working capital			
(Increase)/decrease in inventories		(25,278)	105,202
(Increase)/decrease in trade and other receivables		(348,089)	2,887,497
Increase/(decrease) in trade and other payables		2,645,472	(3,592,953)
Cash generated from operations		3,594,752	2,925,128
Income tax paid		(251,598)	(658,206)
Interest paid		(202,973)	(190,375)
Net cash generated from operating activities		3,140,181	2,076,547
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to prepaid lease payments		(1,545,709)	(89,718)
Acquisition of property, plant and equipment		(1,055,463)	(3,786,482)
Sales of property, plant and equipment		-	3,083
Interest received		26,415	31,177
Net cash used in investing activities		(2,574,757)	(3,841,940)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan from financial institution raised		-	423,002
Repayment of loan from financial institution		(1,412,520)	-
Shareholders loan raised		-	773,244
Payment of deemed dividend taxes		(1,138,450)	-
Proceeds from issuance of convertible loan notes	29 1	1,447,699	-
Share issue costs	29 2	-	(301,907)
Net cash (used in)/from financing activities		(1,103,271)	894,339
NET DECREASE IN CASH AND CASH EQUIVALENTS		(537,847)	(871,054)
Exchange gains on cash and cash equivalents		210,766	361,139
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		5,992,035	6,501,950
CASH AND CASH EQUIVALENTS AT END OF PERIOD		5,664,954	5,992,035

# Company Cash flow statement

For the year ended 30 September 2010

		For Year Ended 30 September 2010	For Year Ended 30 September 2009
	Notes	£	£
Cash flows from operating activities			
Loss before taxation		(468,446)	(385,741)
Adjustments for			
Interest income		(9)	(8,267)
Operating cash flows		(468,455)	(394,008)
(Increase)/decrease in receivables		(24,087)	319,074
Increase/(decrease) in payables		297,338	(367,928)
Increase in amount due from subsidiary		(522,846)	(2,106,940)
Net cash from operating activities		(718,050)	(2,549,802)
Cash flows from investing activities			
Interest received		9	8,267
Net cash used in investing activities		9	8,267
Cash flows from/(used in) financing activities			
Proceeds from issuance of convertible loan notes	29	1,447,699	-
Cost of issue of shares		-	(301,907)
Net cash generated from financing activities		1,447,699	(301,907)
Net increase/(decrease) in cash and cash equivalents		729,658	(2,843,442)
Cash and cash equivalents at beginning of period		5,195	2,848,637
Cash and cash equivalents at end of period		734,853	5,195

# Notes to the Financial Statements

## 1 GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Sorbic International Plc and its subsidiaries' (the "Group") principal activities include the production and sale of food preservatives, Sorbic Acid and Potassium Sorbate. The Group's main operations are in the People's Republic of China ("PRC")

Sorbic International Plc, a public limited company, is the Group's ultimate parent company. It is incorporated and domiciled in the United Kingdom. The address of Sorbic International's registered office is 3<sup>rd</sup> Floor, 49 Whitehall, London SW1A 2BX. Sorbic International's shares are listed on the AIM Market of the London Stock Exchange.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### *Basis of preparation*

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use by the European Union, and effective as at the date of these statements, and on the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The Group has not adopted the following standards in the preparation of the financial statements, as they are not effective as at 1 October 2009:

		Effective date – period beginning on or after
IFRS 1	First-time Adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosure for first time adopters	1 July 2010
	Amendment resulting from 2010 annual improvements to IFRS	1 January 2011
IFRS 2	Share Based Payments – Amendments relating to group cash-settled share-based payment transactions	1 January 2010
IFRS 3	Business Combinations	1 January 2011
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations – Amendments arising from 2009 Annual Improvements to IFRS	1 January 2010
IFRS 7	Financial Instruments Disclosures – Amendments resulting from 2010 Annual Improvements to IFRSs	1 January 2011
	Amendments enhancing disclosures about transfers of financial assets	1 January 2011
IFRS 8	Operating Segments – Amendments resulting from 2009 Annual improvements to IFRS	1 January 2010
IFRS 9	Financial Instruments Classification & Measurement	1 January 2013
IAS 1	Presentation of Financial Statements – Amendments resulting from 2009 Annual Improvements to IFRS	1 January 2010
	Amendments resulting from 2010 Annual Improvements to IFRSs	1 January 2011
IAS 7	Statement of Cash Flows - Amendments resulting from 2009 Annual Improvements to IFRS	1 January 2010
IAS 17	Leases – Amendments arising from 2008 Annual Improvements	1 January 2010
IAS 24	Related Party Disclosure – Revised definition of related parties	1 January 2011
IAS 27	Consolidated and Separate Financial Statements – Amendments resulting from 2010 Annual Improvements to IFRSs	1 July 2010
IAS 32	Financial Instruments Presentation – Amendments relating to classification of rights issues	1 February 2010
IAS 34	Interim Financial Reporting – Amendments resulting from 2010 Annual Improvements to IFRSs	1 January 2011
IAS 36	Impairment of Assets – Amendments resulting from 2009 Annual Improvements to IFRSs	1 January 2010
IAS 39	Financial Instruments Recognition and Measurement – Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
IFRC 14	Prepayments of Minimum Funding Requirements	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Based on Sorbic International's current business model and accounting policies, management does not expect material impacts on Sorbic International's consolidated financial statements when the standards and interpretations become effective. However, there will be significant changes in disclosure.

With effect from 1 October 2009, the Group has implemented IFRS 8 – operating segments and IAS 1 (revised 2007) – presentation of financial statements, which are relevant to and effective for the Group's financial statements for the financial year beginning 1 October 2009.

### a IFRS 8 – Operating Segments

This standard has been applied retrospectively. The adoption of this standard does not affect the identified operating segments for the Group and has no impact on the reported results or financial position of the Group. The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision maker.

The Group has adopted IFRS 8 which is required for all annual reports and interim financial statements starting 1 January 2009 or later. Implementation of IFRS 8 has not resulted in changes to the Group policy in measuring/valuing the amounts included in segmental reporting. However, the composition of the reportable segment in September 2010 reporting compared to September 2009 has changed and there are additional narrative disclosures. The measures of profit or loss, turnover and expenses included in segmental reporting are the same as those used in the consolidated financial statements and remain unchanged from 2009.

The reportable segments identified make up the Group's revenue, which is derived from the sale of its products. The reportable segments are an aggregation of operating segments within the Group as prescribed by IFRS 8. The reportable segments are determined based on the Group's management structures and the consequent reporting to the chief operating decision maker. Thus, they are determined based on both geographical segments and business segments of the Group.

Income and expenses included in profit for the year are allocated to the extent that they can be directly or indirectly attributed to the segments on a reliable basis. Expenses allocated as either directly or indirectly attributable comprise cost of sales, other operating expenses and administrative expenses.

The income and expenses allocated as indirectly attributable to the segments are allocated by means of sharing key resources determined on the basis of utilisation of key resources in the segment.

Non-current segment assets comprise the non-current assets used directly for the segment operations, including property, plant and equipment, land use rights and construction in progress prepayments.

Current segment assets comprise the current assets used directly for segment operations, including inventories, trade receivables, other receivables and prepayments.



# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### b IAS 1 (revised 2007) – Presentation of Financial Statements

The Group has adopted IAS 1 (revised 2007) – Presentation of Financial Statement in its consolidated financial statements. This standard has been applied retrospectively. The adoption of the standard does not affect the financial position or profits of the Group, but give rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, however some items that were recognised directly in equity are now recognised in other comprehensive income. For example, translation differences on translating foreign operations. In particular, an amount of £464,335 (2009: £742,147) that would previously have been recognised directly in equity, has now been recognised in other comprehensive income.

### c IAS 1 (revised 2007) – Presentation of Financial Statements

IAS 1 (Revised 2007) introduces a number of changes to the requirements for the presentation of financial statements which include the followings - the separate presentation of owner and non-owner changes in equity, requirement for entities making restatements of classifications of comparative information to present a statement of financial position at the beginning of the comparative period, and voluntary name changes for certain primary statements.

#### i Reverse acquisition accounting

In April 2008, Honour Field successfully completed the acquisition of Linyi Van Science and Technology Limited ("LVST") for a total purchase consideration of £3,624,495.

A qualitative and quantitative analysis of these factors leads the directors to conclude that in this transaction LVST should be treated as the accounting acquirer as the executive management of LVST became that of Honour Field as well as the agreement between management and acquiring shareholders.

In September 2008, the Company successfully completed the acquisition of Honour Field and its subsidiary for a total purchase consideration of up to £20,120,000, excluding expenses, as fulfilled by an immediate issuance of 16,526,667 new Ordinary shares of the Company upon completion of the acquisition. A further 10,300,000 new Ordinary shares was issued in the year to 30 September 2009 upon Honour Field meeting its profit target under a deferred consideration scheme known as the Escrow share scheme.

Due to the relative values of the companies, the former Honour Field shareholders became majority shareholders with 68.15 percent of the enlarged ordinary share capital in Sorbic International, and hence hold the majority of the voting rights. Further, the executive management of the LVST became that of Honour Field and Sorbic International. A qualitative and quantitative analysis of these factors leads the Directors to conclude that in this transaction Honour Field has the controlling interest and should be treated as the accounting acquirer.

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c IAS 1 (revised 2007) – Presentation of Financial Statements (continued)

#### i Reverse acquisition accounting (continued)

In determining the appropriate accounting treatment for the reverse acquisition, the directors have considered the Application Supplement to IFRS 3, Business Combinations. However, they have concluded that this transaction falls outside of the scope of IFRS 3, since Sorbic International, whose activities prior to the acquisition were limited to the management of cash resources and the maintenance of its listing, did not constitute a business. It has therefore been determined that the transaction should be accounted for in a manner that is similar to the reverse accounting as described in IFRS 3, but without recognising goodwill.

In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, in developing an appropriate accounting policy the directors have considered the pronouncements of other standard-setting bodies and specifically looked to accounting principles generally accepted in the United States of America ("US GAAP") for guidance (FAS 141, Business Combinations) as well as SEC rules. Under US GAAP, in a reverse acquisition, the target company (Honour Field) is treated as the acquiring company for financial reporting purposes (no purchase accounting adjustments) and the fair value of the issuing company's common shares (Sorbic International) is recognised, together with adjustments necessary to reflect the net tangible and identifiable intangible assets at their fair value with any remainder assigned to goodwill (full application of purchase accounting).

Under US GAAP, such a transaction is treated as an equity issuance by the operating entity (in this case Honour Field). As a result, the cost of the combination is deemed to equal the net monetary assets of the acquiree (Sorbic International) plus transaction costs. Only costs incurred by the "target" company can be capitalised.

#### ii Subsidiary undertakings

As at 30 September 2010, the Company had the following subsidiaries

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

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c IAS 1 (revised 2007) – Presentation of Financial Statements (continued)

#### iii Investment

Investment in subsidiary companies is stated at cost, less provision for diminution in carrying value

#### iv Revenue recognition

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 Group and the amount of revenue can be measured reliably

Revenue from the sales of manufactured goods and trading of raw material are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customer

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

#### v Income tax and taxation

##### (a) 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

##### (b) Sales tax

Turnover, expenses and assets are recognised net of the amount of sales tax except

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- Receivables and payables that are stated with the amount of sales tax included

##### (c) 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c IAS 1 (revised 2007) – Presentation of Financial Statements (continued)

#### v Income tax and taxation (continued)

##### (c) Taxation (continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed 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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### vi Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The Group reviews an ageing analysis at each balance sheet date and makes allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production.

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c IAS 1 (revised 2007) – Presentation of Financial Statements (continued)

#### vii Foreign currency translation

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). i.e. The functional currency of LVST and Inner Mongolia Van Science Technique Co., Ltd is Renminbi and the functional currency of all other group companies is Sterling. The financial information is presented in Sterling, which is Sorbic International's functional and presentational currency.

##### (ii) 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.

#### viii Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated statement of comprehensive income during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The estimated useful lives of property, plant and equipment are as follows:

	<u>Useful economic life (years)</u>
Buildings	20
Plant and machinery	12
Office equipment and fixtures	5
Motor vehicles	5

The residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. The assets would be transferred to the respective class of assets on completion. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated statement of comprehensive income.

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c IAS 1 (revised 2007) – Presentation of Financial Statements (continued)

#### ix Land use rights

Land use rights are capitalised and stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight line basis over the term of the rights.

#### x Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. 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 Group 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of 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 reversal of the impairment loss is treated as a revaluation increase.

#### xi 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.

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c IAS 1 (revised 2007) – Presentation of Financial Statements (continued)

#### xii 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 Group 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.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### xiii 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.

#### xiv Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRS. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### xv Share-based payments

All share-based payment arrangements are recognised in the consolidated financial statements in the period in which the associated goods or services are provided. The Group operates equity-settled share-based remuneration plans for remuneration of its employees, although to-date no options have been granted under these plans.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values at the date the services are provided.

All equity-settled share based payments are recognised as an expense with a corresponding credit to "Share based payment reserve". Where the cost relates to the issue of shares, the cost has been off-set against share premium.

Upon exercise of the share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c IAS 1 (revised 2007) – Presentation of Financial Statements (continued)

#### xvi 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

#### xvii Borrowing costs

All borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred

#### xviii 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

#### xix Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs

#### xx Deferred consideration

In accordance with IAS 32 Financial Instruments: Disclosure and Presentation, deferred consideration is considered to be an equity instrument if it is defined as a set number of shares. If the deferred consideration is defined as a set value, then the deferred consideration is considered to be a liability

#### xxi Employee benefits

Honour Field, based in Singapore, makes contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme

The Group's Chinese subsidiaries follow the rules and regulations stipulated by the PRC, including

##### (i) Pension obligations

LVST contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by LVST and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the consolidated statement of comprehensive income represents contributions payable by LVST to the scheme

##### (ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal



# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c IAS 1 (revised 2007) – Presentation of Financial Statements (continued)

#### xxii Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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.

#### xxiii Derivatives financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge),
- (b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge), or
- (c) hedges of a net investment in a foreign operation (net investment hedge)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of comprehensive income, together with any changes in the fair value of the hedged or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the consolidated statement of comprehensive income within "finance costs". The gain or loss relating to the ineffective portion is recognized in the consolidated statement of comprehensive income within "other gains/(losses) — net". Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the consolidated statement of comprehensive income within 'finance costs'. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### c IAS 1 (revised 2007) – Presentation of Financial Statements (continued)

#### xxiii Derivatives financial instruments and hedging activities

##### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of comprehensive income within "other gains/(losses) — net".

Amounts accumulated in equity are recycled in the consolidated statement of comprehensive income in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated statement of comprehensive income within "finance costs". The gain or loss relating to the ineffective portion is recognised in the consolidated statement of comprehensive income within "other gains/(losses) — net". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in case of inventory or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of comprehensive income within "other gains/(losses) — net".

##### (c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of comprehensive income within "other gains/(losses) — net". Gains and losses accumulated in equity are included in the consolidated statement of comprehensive income when the foreign operation is partially disposed of or sold.

##### (d) Derivatives at fair value through profit or loss and accounted for at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the consolidated statement of comprehensive income within "other gains/(losses) — net".

# Notes to the Financial Statements

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 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 directors have reviewed the accounting policies set out above and consider them to be the most appropriate to the Group's business activities

The Group 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 are discussed below

#### i Income Taxes

Significant judgement is required in determining the deductibility of certain expenses during the estimation of the provision of income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made

#### ii Useful lives of property, plant and equipment

The cost of property, plant and equipment is depreciated on a straight line basis over their useful lives. Management estimates the useful lives of these properties, plant and equipment to be within 2 to 20 years. These are common life expectancies applied in the industry in which the Group operates. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised

#### iii Impairment of property, plant and equipment

The Group evaluates whether items of property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, in accordance with the stated accounting policy. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying amounts of these assets are shown in Note 13

#### iv Impairment loss of trade and other receivables

The Group's policy for doubtful receivables is based on the on-going evaluation of the collectability and aging analysis of the trade and other receivables and on management's judgements. Considerable judgement is required in accessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial condition of the Group's debtors were to deteriorate, resulting in an impairment of the ability to make payments, additional impairment loss of trade and other receivable may be required. The carrying amounts of these assets are shown in Note 16 and 17

# Notes to the Financial Statements

## 3 CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's objectives when managing capital are to safeguard the Group'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 Group consists of bank and other borrowings, and equity attributable to equity holders of the Company, comprising issued share capital and reserves

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio and also debts to equity ratio

### 3.1 Gearing ratio

The gearing ratio is defined and calculated by the Group as a total of interest-bearing borrowings to the owners' equity. Total equity includes mainly equity attributable to equity holders of the company

During the year ended 30 September 2010, the Group's strategy was to maintain the gearing ratio at a moderate level within 20% - 30% in order to secure access to finance at a reasonable cost. The gearing ratios as at the balance sheet dates were as follows

Group	As at 30 September 2010 £	As at 30 September 2009 £
Debts-interest bearing		
Bank borrowings	1,412,520	2,729,046
Shareholder's loan	341,070	-
Convertible loan notes	1,562,000	-
Total	3,315,590	2,729,046
Equity		
Capital and reserves attributable to equity holders of the company	13,881,167	13,015,877
Gearing ratio	<u>14.2</u>	<u>14.8</u>

The debt to equity ratio is defined and calculated by the Group as total debt (total liabilities) to the owner's equity, at 30 September 2010 was 1.11 (2009 1.28)

Group	As at 30 September 2010 £	As at 30 September 2009 £
Total debts	12,204,356	4,649,614
Capital and reserves attributable to equity of the company holders	13,881,167	13,015,877
Debt to equity ratio	<u>1.11</u>	<u>1.28</u>

# Notes to the Financial Statements

## 4 TURNOVER

All turnover relates to the sales of goods. Turnover represents the invoiced value of goods, net of discounts and returns.

An analysis of the Group's turnover is as follows:

	Year ended 30 September 2010	Year ended 30 September 2009
	£	£
Sale of Sorbic Acid	5,735,928	6,655,770
Sale of Potassium Sorbate	6,315,949	7,789,327
	<u>12,051,877</u>	<u>14,445,097</u>

## 5 SEGMENTAL INFORMATION

The Group has adopted IFRS 8, Operating Segments for the year ended 30 September 2010. IFRS 8 requires that segments represent the level at which financial information is reported to the Board of directors ("The Board") of the Group, being the chief operating decision maker as defined in IFRS 8. The Board consists of the Chairman, the President, the Chief Executive Officer, the Chief Financial Officer and the Non-Executive Directors. The Board determines the operating segments based on reports reviewed and used by the Board for strategic decision making and resource allocation.

Segment information is presented in respect of the Group's geographical and operating segments.

The Group's operating segments are as follows:

- (i) Sorbic acid
- (ii) Potassium sorbate

There were no inter-segment sales and transfers during the year ended 30 September 2010.

### Geographical Information - Turnover

	Year ended 30 September 2010	Year ended 30 September 2009
	£	£
PRC	5,505,996	7,211,642
United States	2,858,057	3,045,263
Russia	912,978	1,410,255
Netherlands	1,265,591	1,629,531
Other	1,509,255	1,148,406
Consolidated	<u>12,051,877</u>	<u>14,445,097</u>

# Notes to the Financial Statements

## 5 SEGMENTAL INFORMATION (continued)

All Non-current assets are held in the PRC

Operating Segments	Sorbic Acid	Potassium Sorbate	Unallocated	Consolidated
	£	£	£	£
Year ended 30 September 2010				
Revenue	5,735,928	6,315,949	-	12,051,877
Gross profit	945,765	1,281,647	-	2,227,412
Profit before taxation	-	-	602,437	602,437
Taxation	-	-	(253,751)	(253,751)
Net profit after tax	-	-	348,686	348,686
Segment assets	446,982	359,925	25,278,616	26,085,523
Segment liabilities	-	-	(12,204,356)	(12,204,356)
Finance income	-	-	26,415	26,415
Finance costs	-	-	(201,534)	(201,534)
Depreciation and amortisation	243,803	228,615	49,697	522,115
Capital expenditure	-	-	1,207,111	1,207,111

Operating Segments	Sorbic Acid	Potassium Sorbate	Unallocated	Consolidated
	£	£	£	£
Year ended 30 September 2009				
Revenue	6,655,770	7,789,327	-	14,445,097
Gross profit	2,350,903	2,701,566	-	5,052,469
Profit before taxation	-	-	3,303,382	3,303,382
Taxation	-	-	(511,330)	(511,330)
Net profit after tax	-	-	2,792,052	2,792,052
Segment assets	499,807	394,802	16,770,882	17,665,491
Segment liabilities	-	-	(4,649,614)	(4,649,614)
Finance income	-	-	32,765	32,765
Finance costs	-	-	(190,764)	(190,764)
Depreciation and amortisation	249,137	266,605	-	515,742
Capital expenditure	-	-	3,830,602	3,830,602

## 6 FINANCE INCOME

Finance income and costs included are all interest related. The following amounts have been included in the income statement line for the reporting periods presented

	Year ended 30 September 2010	Year ended 30 September 2009
	£	£
Interest income	26,415	32,765

# Notes to the Financial Statements

## 7 FINANCE COSTS

	Year ended 30 September 2010	Year ended 30 September 2009
	£	£
Interest on bank loans and borrowings	201,534	190,764

## 8 STAFF COSTS

	Year ended 30 September 2010	Year ended 30 September 2009
	£	£
Directors' remuneration		
Fees as directors	92,292	110,000
For management	253,602	257,008
Other emoluments	31,509	-
Pension costs	13,715	18,243
	391,118	385,251

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

Staff costs, including directors' remuneration

	Year ended 30 September 2010	Year ended 30 September 2009
	£	£
Wages and salaries	541,725	538,318
Social security costs	41,787	36,186
Pension costs	89,107	81,831
	672,619	656,335

Average number of persons employed by the Group, including directors

	Year ended 30 September 2010	Year ended 30 September 2009
	No	No
Management	21	17
Sales	8	8
Production and administration	238	238
	267	263

# Notes to the Financial Statements

## 9 INCOME TAX EXPENSE

	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Current tax	253,751	511,330
Deferred tax	-	-
	253,751	511,330
Profit before tax	602,437	3,303,382
Tax on profit at standard rate (25%, 2009 25%)*	150,609	825,846
Tax effect of non-deductible expenditure	170,451	-
Tax effect of exempt income	(67,309)	(314,516)
Current tax expense recognised in income statement	253,751	511,330
Effective tax rate	42.1%	15.5%

\* Sorbic International is subject to a United Kingdom tax rate of 28% from April 2008. No tax provision is provided at the Sorbic International level as all current revenues are foreign derived income.

Honour Field International is a BVI registered company and therefore has tax exempt status.

LVST is subject to a PRC Enterprise Income Tax rate of 25% (2009 25%).

The tax charge on profits assessable has been calculated at the rates of tax prevailing in China, in which the Group through its China subsidiary operates, based on existing legislation, interpretation and practices in respect thereof.

The Group's subsidiary, LVST has had the benefit of a tax holiday from 2004 in which it is entitled to exempt the Enterprise Income Tax ("ETI") for two years starting from first profit making year following by a 50% tax relief for the next three years. The tax relief ended on the 31 December 2009.

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of £267,507 (2009 £135,939) in respect of losses amounting to £955,382 (2009 £485,497) that can be carried forward against future taxable income since future taxable profits were not considered probable.



# Notes to the Financial Statements

## 10 PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging the following

	Year ended 30 September 2010	Year ended 30 September 2009
	£	£
Depreciation	472,418	469,073
Cost of inventories sold	1,020,187	94,782
Exchange losses	31,908	15,962
Amortisation of prepaid land lease payments	49,697	46,669
Auditor's remuneration		
- Fees payable to the Company's auditor for the audit of the Company's annual accounts	52,000	55,000
- Fees payable to the Company's auditor and its associates for other services - taxation	4,642	9,000

## 11 EARNING PER SHARE AND DIVIDENDS

### Basic

	2010	2009
Profit attributable to equity holders of the Company	£348,686	£2,792,052
Weighted average number of Ordinary shares in issue (number)	33,388,500	28,280,828
Basic earnings per share (pence)	1 04	9 87

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and convertible loan notes. For the share options and convertible loan notes, a calculation is done to determine the number of shares that could have been acquired based on the monetary value of the subscription rights attached to outstanding share options and convertible loan notes. The number of shares calculated as above is adjusted for the number of shares that would have been issued assuming the exercise of the share options and convertible loan notes.

	2010	2009
Profit attributable to equity holders of the Company	£348,686	£2,792,052
Weighted average number of Ordinary shares in issue (number)	33,388,500	28,280,828
Adjustments for		
Convertible loan notes (number)	4,881,250	-
Share options (number)	600,000	600,000
	38,869,750	28,880,828
	pence	pence
Diluted earnings per share	0 90	9 66

# Notes to the Financial Statements

## 12 RETIREMENT BENEFIT SCHEMES

The Group's Chinese subsidiaries are required to participate in the employee pension schemes operated by the relevant local government authorities in the PRC. The PRC government is responsible for the pension liabilities to the employee pension scheme. LVST is required to make contributions for those employees who are registered as permanent residents in the PRC and are within the scope of the relevant PRC regulations at rates ranging from 19% to 20% of the employees' salaries. The pension cost for the year was £70,125 (year ended 30 September 2009: £60,329). Non PRC pension contributions for the year amounted to £18,982 (FY2009: £21,502).

## 13 PROPERTY, PLANT AND EQUIPMENT

	Buildings £	Plant and machinery £	Office equipment and fixtures £	Motor vehicles £	Construction in progress £	Total £ At
1 October 2008	1,865,654	3,786,930	52,473	32,910	151,129	5,889,096
Additions	-	-	1,229	47,890	3,781,484	3,830,603
Disposal	-	-	-	(29,911)	-	(29,911)
Translation differences	186,028	377,604	5,181	2,540	(140,829)	430,524
At 30 September 2009	2,051,682	4,164,534	58,883	53,429	3,791,784	10,120,312
Additions	143,968	71,674	-	30,923	864,352	1,110,917
Disposal	(27,085)	-	-	-	(55,453)	(82,538)
Translation differences	71,994	146,381	2,071	1,834	132,174	354,454
At 30 September 2010	2,240,559	4,382,589	60,954	86,186	4,732,857	11,503,145

### Accumulated depreciation

At 1 October 2008	420,390	1,274,626	22,630	28,069	-	1,745,715
Charge for the year	102,715	344,092	9,979	12,287	-	469,073
Disposal	-	-	-	(28,415)	-	(28,415)
Exchange differences	37,684	112,911	1,845	3,463	-	155,903
At 30 September 2009	560,789	1,731,629	34,454	15,404	-	2,342,276
Charge for the year	104,412	342,872	9,561	15,356	-	472,201
Disposal	(5,331)	-	-	-	-	(5,331)
Exchange differences	19,579	60,400	1,198	519	-	81,696
At 30 September 2010	679,449	2,134,901	45,213	31,279	-	2,890,842

### Carrying amount

At 30 September 2009	1,490,893	2,432,905	24,429	38,025	3,791,784	7,778,036
At 30 September 2010	1,561,110	2,247,688	15,741	54,907	4,732,857	8,612,303

As at 30 September 2010, certain building and equipment of LVST were pledged as security for bank loans as disclosed in note 20 below. The aggregate carrying value of the pledged buildings and equipment attributable to LVST as at 30 September 2010 amounted to £1,192,416 (2009: £1,233,689).

# Notes to the Financial Statements

## 14 LAND USE RIGHTS

	As at 30 September 2010 £	As at 30 September 2009 £
Cost		
Beginning of period	2,311,227	1,584,897
Addition	1,545,709	592,733
Exchange difference	79,001	133,597
End of period	3,935,937	2,311,227
Accumulated amortization		
Beginning of period	92,945	43,830
Charge for the year	49,697	46,669
Exchange difference	3,196	2,446
End of period	145,838	92,945
Carrying amount	3,790,099	2,218,282

The Group's prepaid land lease payments represent payments for land use rights situated in the PRC under medium term leases. The Group's land use rights lease prepayments are being amortised straight-line over 48-50 years terms and included under administration expenses in the consolidated statement of comprehensive income.

As at 30 September 2010, certain land lease prepayments of the Group were pledged as security for bank loans as disclosed in note 20 below. The aggregate carrying value of the pledged land lease prepayments attributable to LVST as at 30 September 2010 amounted to £338,224 (2009: £334,435).

## 15 INVENTORIES

Group	As at 30 September 2010 £	As at 30 September 2009 £
Raw materials	265,577	280,850
Consumables	21,872	16,198
Finished goods	74,446	28,131
	361,895	325,179

# Notes to the Financial Statements

## 16 TRADE AND OTHER RECEIVABLES

Trade receivables are unsecured, non-interest bearing and on 2 months' terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition less provision for impairment where it is required.

Trade receivables that are less than three months past due are not considered impaired.

The ageing analysis of trade receivables past due but not impaired are set out below. These relate to a number of independent customers for whom there is no recent history of default.

	As at 30 September 2010 £	As at 30 September 2009 £
Up to three months	1,331,775	989,697
	<u>1,331,775</u>	<u>989,697</u>

Trade receivables that are neither past due nor impaired are considered to be fully recoverable. There are no concentrations of credit risk in trade receivable.

## 17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group	As at 30 September 2010 £	As at 30 September 2009 £
Prepayments	197,931	2,463
Other receivables	49,171	58,174
	<u>247,102</u>	<u>60,637</u>
Company	As at 30 September 2010 £	As at 30 September 2009 £
Prepayments	16,060	2,041
Other receivables	12,530	2,462
	<u>28,590</u>	<u>4,503</u>

# Notes to the Financial Statements

## 18 CASH AND CASH EQUIVALENTS

Group	As at 30 September 2010 £	As at 30 September 2009 £
Cash and cash equivalents	5,664,954	5,992,035

The cash and cash equivalents are denominated in the following currencies

	As at 30 September 2010 £	As at 30 September 2009 £
RMB	4,610,760	5,948,660
SGD	(645)	34,642
GBP	1,054,839	8,733
	5,664,954	5,992,035

The conversion of Renminbi denominated cash and bank balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government

Company	As at 30 September 2010 £	As at 30 September 2009 £
Bank and cash balances	734,853	5,195

All the Company cash balances are denominated in GBP

## 19 AMOUNTS DUE TO DIRECTOR

Group	As at 30 September 2010 £	As at 30 September 2009 £
Wang Yan Ting Director loans	7,937,541	773,244
Total amount due to directors	7,937,541	773,244

The director loans are denominated in Renminbi. It is unsecured, interest free with no fixed term of repayment

# Notes to the Financial Statements

## 20 INTEREST-BEARING BORROWINGS

Group

	As at 30 September 2010 £	As at 30 September 2009 £
Bank loans	1,412,520	2,729,046
The borrowings are repayable as follows		
On demand or within one year	1,412,520	2,729,046

As at 30 September 2010, bank loans of £1,412,520 (2009 £1,364,523) were secured by pledges of certain buildings and equipment, bank deposits and land lease prepayments

The average annual interest rates paid were as follows

	As at 30 September 2010 %	As at 30 September 2009 %
Bank loans	5.42	6.69

Due to the short term nature of the borrowings, the fair values approximate their carrying values

All of the interest bearing loans have been renewed for 12 months beginning July 2010. There are no undrawn bank facilities as at 30 September 2010.

## 21 SHARE CAPITAL

	As at 30 September 2010 £	As at 30 September 2009 £
Authorised		
100,000,000 Ordinary share of £0.06 each	6,000,000	6,000,000

The movement on the share capital account was as follows

	£
Issued, called up and fully paid	
At 1 October 2008	
23,088,500 Ordinary shares of £0.06 each	1,385,310
Issue of shares on 23 March 2009	
10,300,000 Ordinary shares of £0.06 each	618,000
At 30 September 2009 and 2010	2,003,310

The principal amount of the convertible loan notes issued on 27 August 2010 can be converted into such number of new fully paid ordinary shares of the Company at a conversion price of 32 pence per share at any time up to the final redemption date of 26 February 2013. As at 30 September 2010, 4,881,250 ordinary shares are reserved for issue. No conversion took place during the year.

# Notes to the Financial Statements

## 21 SHARE CAPITAL (continued)

The movement on the share premium account was as follows

Share premium	£
As at 30 September 2008	14,274,196
Issue of shares on 23 March 2009 for a consideration of £0.75 per share	7,107,000
Share issue costs	(301,907)
At 30 September 2009 and 2010	21,079,289

On 23 March 2009, the Company allotted and issued a further 10,300,000 Ordinary shares when Honour Field achieved the profit target for the 12 months ended 31 December 2008 of RMB60 million as stipulated in the business transfer agreement

Additional cost has been deducted from the share premium since these costs relate to professional services in relation to the issue of shares

## 22 RESERVES

### (i) Capital reserve

The capital reserve comprises the surplus between the fair value of the net assets and the nominal value of shares issued when LVST was converted/ acquired from a state-owned enterprise to a limited company

The capital reserve can only be used for conversion into share capital

Domestic PRC companies are also required to transfer 5% to 10% of net profit, as determined under PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the employees of that company. This fund is non-distributable other than in the event of liquidation.

### (ii) Surplus reserve

In accordance with the relevant PRC laws and regulations, PRC domestic companies are required to transfer 10% of their profit after income tax, as determined in accordance with PRC GAAP, to the statutory reserves, until the balance of the reserve reaches 50% of the registered capital of that company. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against accumulated losses, if any.

# Notes to the Financial Statements

## 22 RESERVES (continued)

### (iii) Share based payment reserve

Share based payment reserve represents equity-settled share-based payments until such share options are exercised. There has been no movement in the share based payment reserve.

	As at 30 September 2010	As at 30 September 2009
Share option granted to Hermes Capital for subscription of 400,000 new ordinary shares	20,000	20,000
Finn Cap for subscription of 200,000 new ordinary shares	10,000	10,000
	<u>30,000</u>	<u>30,000</u>

For the period ended 30 September 2008, Sorbic International granted Hermes Capital and JM Finn Capital Markets Limited warrants to subscribe for 400,000 and 200,000 new ordinary shares of the Company, respectively, at a subscription price of £0.75 per share. The warrant may be exercised at any time during the period of five years from 29 September 2008 onwards. As at 30 September 2010 the warrant remained unexercised.

### (iv) Shares to be issued under Escrow scheme

10,300,000 shares were issued at 75 pence per share to Prime Mega on 23 March 2009 when Honour Field achieved the profit target as stipulated in the business transfer agreement.

### (v) Reverse acquisition reserve

The reverse acquisition reserve arises as a result of following the accounting method described in note 2 (i) in respect of the reverse acquisition.

### (vi) Hedging reserves

The hedging reserve arises as a result of following the accounting method described in note 2 xxiii and relates to the foreign currency exchange losses that arose from the Renminbi denominated consideration for the acquisition exercise.



# Notes to the Financial Statements

## 23 RELATED PARTY TRANSACTIONS

### Group

An entity or individual is considered a related party of the Group for the purpose of the financial statements if (i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa, or (ii) it is subject to common control

- (i) In addition to related party information disclosed elsewhere in the financial statements, the following significant related party transactions took place during the year on terms agreed between the parties

	As at 30 September 2010 £	As at 30 September 2009 £
Director – John Mclean		
Convertible loan interest	384	-
Consultancy Fee	17,708	-
Director – Ang Wee Boon		
Consultancy Fee	13,800	-
Hermes Financial Group (BV) Ltd		
Amount due from	301,625	301,625
Hermes Capital (BVI) Ltd		
Amount due to	93,742	144,727
Albany Capital Group Limited/Albany Capital PLC		
Convertible loan interest	2,046	-
Shareholder loan interest	27,070	-
Amount due to	341,070	-
Management fee payable	-	14,375
Fees paid to Albany Capital for advisory work and administrative time costs	25,000	25,000

# Notes to the Financial Statements

## 23 RELATED PARTY TRANSACTIONS (continued)

- (a) Mr Wang Yan Ting is a director of the Company and the former owner of LVST. The amount due from director relates to transactions entered with the director to resolve a tax position that arose due to the acquisition of LVST. These amounts are repayable on demand and interest free.

The amount due to director consists of the off-setting loan from the director in relation to the above tax position and additional loans from the director to fund the Group's expansion plans. These amounts are repayable on demand, unsecured, interest free.

- (b) Hermes Financial Group (BVI) Ltd ("Hermes Financial") is a shareholder of the Company. The amount due from Hermes Financial as at 30 September 2010 represents the remaining funds that Hermes Financial owed in relation to the reverse takeover and re-admission to AIM and is unsecured, interest free and has no fixed terms of repayment.

- (c) Hermes Capital (BVI) Ltd ("Hermes Capital") is a related company as its 100% shareholder Hermes Financial is a shareholder of the Company. Mr Ray Ang Wee Boon was a common director in the Company, Hermes Capital, Prime Mega International Ltd and Hermes Financial. He resigned from his positions in Hermes Capital and Hermes Financial on 31 March 2009.

The balance shown above as amount due to – Hermes Capital was related to the provision of advisory and consultancy service to Honour Field International. The amount due to Hermes Capital is unsecured, interest free and has no fixed terms of repayment.

In respect to the work that Hermes Capital carried out for Sorbic International in relation to the reverse takeover exercise, no fees have yet been invoiced. An accrual of £250,000 being approximately 1.0% of Sorbic's gross market capitalisation at the time of listing was provided in addition to £73,917 of expenses.

- (d) Albany Capital Group Limited ("Albany Capital") is a shareholder of the Company and is providing administrative service and acted as adviser to the Company in relation to the reverse takeover and re-admission to AIM. Mr John Mclean is a common director in the Company and Albany Capital. The amount due to Albany Capital comprises of principal of £314,000 and accrued interest of £27,070. It is secured by a debenture, bears interest of 7.5% per annum and will expire on 11 November 2011.

- (ii) Compensation of key management personnel (as recognised in the consolidated income statement)

		Number of Directors/ key management	Year ended 30 September 2010 £	Year ended 30 September 2010 £
Directors remuneration				
Wages and emoluments		5	391,117	385,251
Key management				
Wages and emoluments		3	304,606	296,548

# Notes to the Financial Statements

## 23 RELATED PARTY TRANSACTIONS (continued)

### (iii) Convertible loan notes

As at 30 September 2010, outstanding convertible loan notes owed to the directors were as follows

	Direct	Deemed
	£	£
Principal	40,000	236,000
Interest accrued	347	2,046

Deemed interests are indirect holdings, namely shares owned by the spouse of a director, or by a company in which a director holds office

### Company

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

	As at 30 September 2010	As at 30 September 2009
	£	£
Honour Field International Limited		
Amount due from subsidiary	2,776,016	2,161,017
Amount due to subsidiary	146,230	54,077
Management fee income from a subsidiary	24,000	18,000

- (a) The amount due from a subsidiary represents an amount advanced by Sorbic International 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.

## 24 CONVERTIBLE LOAN NOTES

Convertible loan notes (the "A Loan Notes") were issued on 27 August 2010. The notes are convertible into ordinary shares of the Company at any time between the date of issue of the notes and their maturity date, i.e. 30 months after the date of issue. The loan notes are convertible at £0.32 per share. The effective interest rate used to calculate the interest charged to the income statement was 12%.

# Notes to the Financial Statements

## 24 CONVERTIBLE LOAN NOTES (continued)

If the notes have not been converted, they will be redeemed on their maturity date at par. Interest of 10 % per annum will be paid biannually up until that date.

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 Group as follows:

	Gross amount	Transaction costs	Net amount
	£	£	£
Convertible loan notes issued	1,562,000	114,301	1,447,699
Equity component	56,395	4,126	52,269
<i>Liability component at date of issue</i>	<i>1,505,605</i>	<i>110,175</i>	<i>1,395,430</i>
Interest charged			13,539
Interest paid			-
Liability component at 30 September 2010			1,408,969

## 25 CAPITAL COMMITMENTS

The Group's capital commitments at the balance sheet date are as follows:

	As at 30 September 2010	As at 30 September 2009
	£	£
<i>Contracted but not provided for</i>		
- Construction in progress	5,758,931	5,304,201

# Notes to the Financial Statements

## 26 FINANCIAL INSTRUMENTS

### Categories of financial instruments

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows

### Summary of financial assets and liabilities by category

#### Group

	As at 30 September 2010 £	As at 30 September 2009 £
Trade and other receivables		
- Loans and receivables	7,656,272	1,351,959
Cash and cash equivalent		
- Loans and receivables	5,664,954	5,992,035
	13,321,226	7,343,994
Non-financial assets	12,764,297	10,321,497
	26,085,523	17,665,491
Borrowings		
- Financial liabilities recorded at amortised cost	1,412,520	2,729,046
Trade and other payables, amount due to related companies		
- Financial liabilities recorded at amortised cost	9,282,359	1,825,068
Convertible loan notes	1,408,969	-
	12,103,848	4,554,114
Non-financial liabilities	100,508	95,500
	12,204,356	4,649,614

#### Company

	As at 30 September 2010 £	As at 30 September 2009 £
Current assets		
Trade and other receivables		
- Loans and receivables	2,804,606	2,165,520
Cash and cash equivalents		
- Loans and receivables	734,853	5,195
	3,539,459	2,170,715
Non-financial assets	20,983,735	20,983,735
	24,523,194	23,154,450
Current liabilities		
Trade and other payables, amount due to related parties and shareholders		
- Financial liabilities recorded at amortised cost	903,300	527,348
	903,300	527,348
Non-financial liabilities	-	-
	903,300	527,348

# Notes to the Financial Statements

## 26 FINANCIAL INSTRUMENTS (continued)

### Risk management objectives and policies

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities. The Group establishes and coordinates its risk management at its headquarter in China, in close co-operation with the Board of directors. The Group focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. The overall financial risk management objective is to ensure that the Group enhances shareholders' value. Financial risk management is carried out through risk reviews, internal control systems and adherence to the Group's financial risk management policies.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described as below.

#### *Market risk*

#### *Currency risk*

The Group's ultimate holding company is located in United Kingdom and its monetary assets, liabilities and transactions are principally denominated in the functional currency of respective group entities, which are mainly British Pound ("GBP"). However, most of the transactions of the Group are carried out in the PRC – where its subsidiary LVST operates. The Group's sales transactions are transacted either in Renminbi ("RMB") and US Dollar ("USD") whereas all related purchases and loan borrowings transactions are therefore denominated in Renminbi ("RMB"). The amount to be paid and received in RMB are expected to largely offset one another, no hedging activity is undertaken. For the financial period, the Group's expenses incurred were in a combination of GBP, RMB, Hong Kong Dollar ("HKD") and Singapore Dollar ("SGD"). Moving ahead, the Group expects HKD transactions to be minimal and replaced by SGD transactions.

*Foreign currency sensitivity*

Facing the continuous appreciation of RMB against GBP and USD, the Group is facing the following foreign currency translation exposure

Group	As at 30 September 2010				As at 30 September 2009			
	£				£			
	RMB	HKD	USD	SGD	RMB	HKD	USD	SGD
<b>Nominal amounts</b>								
<b>Financial assets</b>								
- trade receivables	545,471	-	786,303	-	452,564	-	537,133	-
- other receivables	218,511	-	-	-	-	-	-	-
- cash & banks	4,610,759	-	-	(645)	5,948,660	-	-	34,642
<b>Financial liabilities</b>								
- trade payables	(190,077)	-	-	-	(199,495)	-	-	-
- other payables	(175,874)	-	-	-	(54,223)	-	-	-
- short term borrowings	(1,412,520)	-	-	-	(2,729,046)	-	-	-
- accrual	(209,740)	-	-	(18,822)	(126,064)	-	-	(14,259)
- amount due to related co	-	(93,742)	-	-	-	(144,727)	-	-
- amount due to shareholder	(7,937,542)	-	-	-	(773,244)	-	-	-
<b>Short term exposure</b>	<b>(4,551,012)</b>	<b>(93,742)</b>	<b>786,303</b>	<b>(19,467)</b>	<b>2,519,152</b>	<b>(144,727)</b>	<b>537,133</b>	<b>20,383</b>

# Notes to the Financial Statements

## 26 FINANCIAL INSTRUMENTS (continued)

### Foreign currency sensitivity (continued)

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the GBP – USD, GBP – RMB and GBP – HKD exchange rate. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If the GBP had weakened against the RMB, HKD, USD and SGD by 3% (2009 4%), 4% (2009 4%), 3% (2009 4%) and 2% (2009 3%) respectively, then this would have had the following increase/(decrease) in the net result for the year and equity

	As at 30 September 2010					As at 30 September 2009				
	£					£				
	RMB +3%	HKD +4%	USD +3%	SGD +2%		RMB +4%	HKD +4%	USD +4%	SGD +3%	
Net result for the year	(37,343)	3,750	(23,589)	389		86,839	(3,175)	18,800	1,002	
Equity	(37,343)	3,750	(23,589)	389		86,839	(3,175)	18,800	1,002	

If the GBP had strengthened against the RMB, HKD, USD and SGD by 2% (2009 4%), 2% (2009 4%), 2% (2009 4%) and 2% (2009 4%) respectively, then this would have had the following increase/(decrease) in the net result for the year and equity

	As at 30 September 2010					As at 30 September 2009				
	£					£				
	RMB -2%	HKD -2%	USD -2%	SGD -2%		RMB -4%	HKD -4%	USD -4%	SGD -4%	
Net result for the year	24,895	(1,875)	15,726	(389)		(86,830)	3,175	(18,800)	(1,336)	
Equity	24,895	(1,875)	15,726	(389)		(86,830)	3,175	(18,000)	(1,336)	



# Notes to the Financial Statements

## 26 FINANCIAL INSTRUMENTS (continued)

### Company

The Company is not exposed to foreign currency risk as all of the transactions during the year are denominated in GBP

### *Interest rate sensitivity*

### Group

The Group's policy is to minimise interest rate cash flow risk exposure on long-term financing. Longer term borrowings are therefore usually at fixed rates. As at 30 September 2010, most of the Group's interest-bearing loans entered are short term borrowings with less than one year tenure.

The Group is also exposed to cash flow interest rate risk in relation to the fluctuation of the prevailing market interest rate on interest-bearing financial assets and financial liabilities. Interest-bearing financial assets are mainly balance with banks which are short term in nature.

The Group's interest rate risk arises from interest-bearing financial liabilities that mainly are short-term borrowings arrangements. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to variable interest rate for non-derivative instruments at the balance sheet date. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

### Group

	As at 30 September 2010		As at 30 September 2009	
	Change in interest rate		Change in interest rate	
	+1%	-1%	+1%	-1%
	£	£	£	£
Cash and banks	54,239	(26,376)	62,104	(22,921)
Loan and borrowings	(32,885)	32,885	(28,464)	28,464
	21,354	6,509	33,640	5,543

As at 30 September 2010, if interest rates had been 100 basis points higher/lower and all other variables were held constant, this would increase/(decrease) the Group's profit after tax and retained earnings by approximately GBP21,354 /GBP6,509 (2009 increase/(decrease) by GBP33,640/GBP(5,543)).

# Notes to the Financial Statements

## 26 FINANCIAL INSTRUMENTS (continued)

### Interest rate sensitivity analysis (continued)

The 100 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date

#### Company

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +1% and -1%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the company's financial instruments held as at the balance sheet date. All other variables are held constant.

	As at 30 September 2010		As at 30 September 2009	
	Change in interest rate		Change in interest	
	+1%	+1%	+1%	-1%
	£	£	£	£
Cash and banks	7,391	(9)	60	(60)
Loan and borrowings	(18,760)	18,760	-	-
	(11,369)	18,751	60	(60)

#### *Credit risk analysis*

The Group's maximum exposure to credit risk in the event of the counter parties failure to perform their obligations as at 30 September 2010 in relation to each class of recognised financial assets is the carrying value of those assets as stated in the consolidated balance sheet, as summarised below

#### Group

	As at 30 September 2010	As at 30 September 2009
	£	£
Trade and other receivables	1,578,877	1,050,334
Amount due from related company	301,625	301,625
Amount due from director	5,775,770	-
Cash and cash equivalents	5,664,954	5,992,035
	13,321,226	7,343,994

The Group's credit risk is primarily attributable to trade receivables. In order to minimise the credit risk, the management of the Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

In addition, the Group reviews the recoverable amount of each individual trade and other debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

# Notes to the Financial Statements

## 26 FINANCIAL INSTRUMENTS (continued)

### *Credit risk analysis (continued)*

The Group's management consider that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality. The credit risk on liquid funds is considered negligible because the counterparties are banks with high credit-ratings.

All trade receivables as at 30 September 2010 are current.

### Company

	As at 30 September 2010	As at 30 September 2009
	£	£
Trade and other receivables	2,804,607	2,165,520
Cash and cash equivalents	734,853	5,196
	<u>3,539,460</u>	<u>2,170,716</u>

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure.

### *Liquidity risk analysis*

### Group

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities.

Cash flows are closely monitored on an ongoing basis. The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long term and short term financial liabilities as well as cash-outflows due in day-to-day operation. Capital investments are committed only after confirming the source of funds, e.g. securing long term financial facilities. Liquidity needs are monitored in various time bands, on a day-to-day basis, as well as on the basis of a rolling one month and three months projection. Long term liquidity needs for a 360-day lookout period are identified in the year end budget.

Sorbic maintains cash to meet its liquidity requirements for up to 30 day periods. Funding for long term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings from time to time and is of the opinion that most of the bank borrowings can be renewed based on the strength of the Group's earnings and asset base.

Any repayments for amounts due to related parties or shareholders are negotiated so as not to jeopardise the working capital requirement of the Group. To date, such related parties and shareholders have expressed continued support to the Group.

# Notes to the Financial Statements

## 26 FINANCIAL INSTRUMENTS (continued)

### *Liquidity risk analysis (continued)*

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

As at 30 September 2010	Current			Total
	Less than 1 month	Less than 3 months	3 to 12 months	
	£	£	£	£
Interest bearing loans and borrowings	470,840	941,680	-	1,412,520
Trade and other payables	488,216	85,695	436,602	1,010,513
Amount due to shareholders and directors	282,504	376,672	7,278,366	7,937,542
Amount due to related companies	1,936	6,699	426,177	434,812
	1,243,496	1,410,746	8,141,145	10,795,387

This compares to the maturity of the Group's financial liabilities in the previous reporting periods as follows

As at 30 September 2009	Current			Total
	Less than 1 month	Less than 3 months	3 to 12 months	
	£	£	£	£
Interest bearing loans and borrowings	2,729,046	-	-	2,729,046
Trade and other payables	392,280	63,957	69,204	525,441
Amount due to shareholders and directors	20,864	5,000	790,744	816,608
Amount due to related companies	7,188	-	475,831	483,019
	3,149,378	68,957	1,335,779	4,554,114

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the balance sheet date.

# Notes to the Financial Statements

## 26 FINANCIAL INSTRUMENTS (continued)

### *Liquidity risk analysis (continued)*

#### Company

As at 30 September 2010, the Company's liabilities have contractual maturities which are summarised below

As at 30 September 2010	Less than 1 month £	Less than 3 months £	3 to 12 months £	Total £
Trade and other payables	43,487	39,878	478,866	562,231
Amount due to shareholders and directors	1,935	6,699	332,435	341,069
	<u>45,422</u>	<u>46,577</u>	<u>811,301</u>	<u>903,300</u>

This compares to the maturity of the Company's financial liabilities in the previous reporting period as follows

As at 30 September 2009	Less than 1 month £	Less than 3 months £	3 to 12 months £	Total £
Trade and other payables	66,929	20,248	408,504	495,681
Amount due to shareholders and directors	9,167	5,000	17,500	31,667
	<u>76,096</u>	<u>25,248</u>	<u>426,004</u>	<u>527,348</u>

(note the financial liabilities amount shown above did not include tax liabilities payables)

#### Carrying value of financial assets and liabilities

The fair value of financial assets and financial liabilities approximates their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 7.5%.

## 27 CONTROLLING PARTY

Sorbic International is a public listed company with Prime Mega International Ltd holding 60.4% and Albany Capital Group Limited 20.4% as the two largest shareholders.

# Notes to the Financial Statements

## 28 INVESTMENT IN SUBSIDIARY

As at 30 September 2010, the Company had the following subsidiaries

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

Total investment in subsidiary

	£	Cash
consideration		-
Shares issued to Prime Mega for the acquisition of Honour Field	15,120,000	
Additional shares issued to Hermes Financial and Albany Capital	2,000,000	
Listing expenses	863,735	
At 30 September 2008 and 2009	17,983,735	
Capitalisation of loan	3,000,000	
At 30 September 2010	20,983,735	

## 29 NOTES TO THE CASH FLOW STATEMENT

### 29 1 Proceeds from issue of convertible loan notes

	£
Convertible loan notes issued on 27 August 10 at £1,000	1,562,000
Less	
Loan issuance cost	(114,301)
	<u>1,447,699</u>

### 29 2 Payment of transaction costs

Transaction costs are professional fees paid to lawyers, accountants and advisers for the Company in connection with the shares issued in relation to the reverse acquisition of Honour Field group

# Notes to the Financial Statements

## 30 PARENT COMPANY RESULTS

No income statement has been prepared for the parent company as allowed by section 408 of the Companies Act 2006. The Company has made a net loss of £468,447 for the period ended 30 September 2010 (2009: £385,741).

## 31 CONTINGENT LIABILITY

The Company disclosed in its financial statements for the year ended 30 September 2009 that a contingent liability of up to £1 million may be due arising from the acquisition of LVST.

In order to resolve the position, a loan of £4.6 million was made by Wang Yan Ting ("WYT"), a director and shareholder in Sorbic International plc and the former owner of LVST, to LVST, and a contribution of the same amount was made by WYT to Honour Field International Limited ("HF"). These amounts are repayable on demand. Since the legal agreements relating to the set off of the above transactions have not been executed at the date of statement of financial position, the amounts due to and due from WYT are included in other payables and other receivables respectively.

As a result of the arrangements, there is no contingent liability at the date of statement of financial position.

## 32 POST BALANCE SHEET EVENT

Subsequent to the year end and as announced on 25 February 2011, the Company has conditionally raised approximately £1.6 million before expenses through the issue of £0.56 million of convertible loan notes (the "B Loan Notes") and 5,175,000 Ordinary shares of £0.06 each for a consideration of £0.20 per share.

The B Loan Notes are repayable on 26 February 2013, rank *pari passu* with the A Loan Notes issued in August 2010 and attract an interest rate of 10% per annum, payable half yearly. The B Loan Notes are convertible at a rate of £0.26 per ordinary share and, in the event of early redemption, the noteholder is entitled to either a 10% premium or warrant coverage at £0.26 per Ordinary share with no premium payable.

The terms of the A Loan Notes have been amended to reflect the same conversion terms as the B Loan Notes. The Company has considered the impact of the change in terms to the A Loan Notes and does not expect material impacts on the Group's financial statements.