

Company Registration Number: 08657869

Wellspring Industry (UK) Limited

Directors' report and
consolidated financial statements

For the year ended 31 December 2016

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Wellspring Industry (UK) Limited

Contents

For the year ended 31 December 2016

DIRECTORS	M R Bin Nor Md A F M Nasim J Kim
COMPANY SECRETARY	Gravitas Company Secretarial Services Limited
REGISTERED NUMBER	08657869
REGISTERED OFFICE	8 th Floor Becket House 36 Old Jewry London EC2R 8DD
INDEPENDENT AUDITORS	Elman Wall Limited Chartered Accountants & Statutory Auditor 8 th Floor Becket House 36 Old Jewry London EC2R 8DD

Wellspring Industry (UK) Limited

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Wellspring Industry (UK) Limited

Directors' Report

For the year ended 31 December 2016

The directors present their directors' report and financial statements for the year ended 31 December 2016.

Principal activities

The company's principal activity continues to be that of a holding company. The company did not trade during the year.

The principal activity of the Group is that of providing delicious and health conscious food products to our customers.

Business Review

The Company's principal activity is investment holding and is the holding company of five subsidiaries, namely Wellspring Industry USA Holdings, Inc., Wellspring Industry, Inc., OMB, Inc., CBL, Inc. and ILTF, Inc. (the Company and its subsidiaries are collectively referred to as the "Wellspring Group" or the "Group").

The Wellspring Group is principally involved in the following businesses:

- Distribution – Wellspring primarily sells frozen yogurt powders, frozen yogurt machines, and yogurt machines to the Company's licensees, master licensors, and other customers. Wellspring also sells flavoring syrups and powders, frozen yogurt toppings and general supplies such as paper cups and serving wares under both Tutti Frutti Frozen Yogurt® and Wellspring's generic Yoflavor® brand names.
- Distribution Fees (USA) – Prior to June 2012, the Wellspring and ILTF received certain distribution fees of the Tutti Frutti Frozen Yogurt® brand from customers in the United States of America. The distribution fee is a one-time fee which under the distribution agreement, the fee is fully refundable within one year of the agreement if the customer is unable to find a store location or is unable to open a store due to unforeseen reasons. Furthermore, the Company is required to provide training under the agreement. Following June 2012, ILTF received distribution fees of the Tutti Frutti Frozen Yogurt® brand from customers in the United States of America.
- Master Distribution Fees (International) - The Company charges a one-time non-refundable master distribution fee (also known as territory fee) with no termination or expiration period. These fees were recorded on Golden Global and ILTF.
- OMB primarily sells bakery mixes, supplies, coffee mixes and machines to the Company's licensees, master licensors, and other customers.

FY 2015 continues to be a challenging year as the strengthening of USD relative to other world currencies translates into a slower sales for the Group, particularly for international markets. The economic environment throughout 2015 also compounded the slower sales for the Group, with US markets were affected by retail industry and industrial production segment slowdown. This in turn has eroded our profitability as the Group started the execution of the planned corporate exercise during the course of the year.

The Group has targeted a few key territories to expand its business, with demands for base and derivations of products is expected to supplement sales slowdown of US and existing international territories. The main area of focus would be emerging markets in Asia Pacific, Central Asia and Eastern Europe.

Wellspring Industry (UK) Limited

Directors' Report

For the year ended 31 December 2016

Directors

The directors who held office during the period were as follows:

M R Bin Nor Md
A F M Nasim
J Kim

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 the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU 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 of the profit and loss of the Group for that period. In preparing these 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 they have been prepared in accordance with IFRSs adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

Auditors

The auditors, Elman Wall Limited, have indicated their willingness to continue in the office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

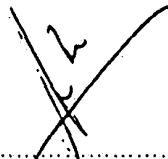
On behalf of the board



M R Bin Nor Md
Director

15 DEC 2017

Date



A F M Nasim
Director

15 DEC 2017

Date

Wellspring Industry (UK) Limited

Independent auditor's report to the members of Wellspring Industry (UK) Limited

For the year ended 31 December 2016

Independent Auditor's Report to the Shareholders of Wellspring Industry (UK) Limited

We have audited the financial statements of Wellspring Industry (UK) Limited for the year ended 31 December 2016 which comprise of the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group Company Statements of Cash Flow, the Group Company Statements of Changes in Shareholders Equity and the related notes. 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 Directors' Responsibilities Statement set out on page 2, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These 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 Group's and the parent 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 group's and of the parent company's affairs as at 31 December 2015, and of the group's profit for the period then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Wellspring Industry (UK) Limited

Independent auditor's report to the members of Wellspring Industry (UK) Limited

For the year ended 31 December 2016

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Elman Wall Limited

Yasin Khandwalla (Senior Statutory Auditor)
for and on behalf of Elman Wall Limited

Chartered Accountants & Statutory Auditor
8th Floor
Becket House
36 Old Jewry
London
EC2R 8DD

Date *15/12/17*

15 DECEMBER 2017

Wellspring Industry (UK) Limited

Consolidated Statement of Comprehensive Income For the year ended 31 December 2016

		Year ended 31 December 2016 US\$	Restated Year ended 31 December 2015 US\$
	Notes		
Revenue	9	8,867,598	11,845,820
Cost of sales		<u>(5,164,426)</u>	<u>(7,415,069)</u>
Gross profit		3,703,172	4,430,751
Selling, general and administrative expenses		<u>(4,003,493)</u>	<u>(5,745,372)</u>
		(300,321)	(1,314,621)
Other income/(expenses)		<u>44,605</u>	<u>45,402</u>
Profit on ordinary activities before taxation		(255,716)	(1,269,219)
Income tax expense	10	<u>(36,682)</u>	<u>(38,102)</u>
Profit for the financial period		(292,398)	(1,307,321)
Other comprehensive income			
Foreign currency translation differences		<u>-</u>	<u>-</u>
Total other comprehensive income for the period		<u>-</u>	<u>-</u>
Total comprehensive profit for the period		<u>-</u>	<u>-</u>
Total comprehensive income attributable to owners of the parent		<u>(292,398)</u>	<u>(1,307,321)</u>

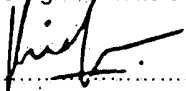
The notes on pages 10 to 24 are an integral part of consolidated financial statements.

Wellspring Industry (UK) Limited

Consolidated Statement of Financial Position As at 31 December 2016

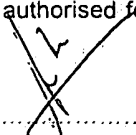
		31 December 2016 US\$	Restated 31 December 2015 US\$
Non-current asset	Notes		
Property, plant and equipment	3	177,452	322,977
Loans and deposits		121,850	121,850
Deferred tax asset	4	587,764	722,560
Total non-current assets		887,066	1,167,387
Current assets			
Inventories	5	1,814,359	1,684,917
Trade and other receivables	6	315,269	100,250
Cash and cash equivalents	7	213,232	344,229
Total current assets		2,342,860	2,129,396
Total assets		3,229,926	3,296,783
Equity			
Share capital		159,300	159,300
Other reserves		179,110	129,110
Accumulated profits		(54,710)	237,688
Total equity attributable to equity holders of the company		283,700	526,098
Trade and other payables		2,607,825	2,307,551
Current tax liabilities		338,401	463,134
Total current liabilities	8	2,946,226	2,770,685
Other payables		-	-
Total non-current liabilities	8	-	-
Total liabilities		2,946,226	2,770,685
Total shareholders' equity and liabilities		3,229,926	3,296,783

The financial statements on pages 10 to 24 were authorised for issue by the board of directors and were signed on its behalf.


M R Bin Nor Md
Director

Date

15 DEC 2017


A F M Nasim
Director

Date

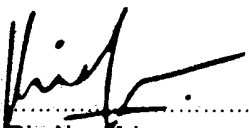
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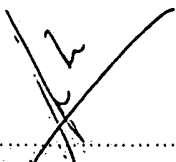
Wellspring Industry (UK) Limited

Company statement of financial position At 31 December 2016

	Notes	31 December 2016 US\$	31 December 2015 US\$
Non-current asset			
Investments		230,000	230,000
Total assets		230,000	230,000
Equity			
Share capital		159,300	159,300
Other reserves		70,700	70,700
Total equity attributable to equity holders of the company		230,000	230,000

The financial statements on pages 10 to 24 were authorised for issue by the board of directors and were signed on its behalf.


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M R Bin Nor Md
Director
15 DEC 2017
.....
Date


.....
A F M Nasim
Director
15 DEC 2017
.....
Date

Wellspring Industry (UK) Limited

Consolidated statement of changes in shareholders' equity For the year ended 31 December 2016

	Share Capital US\$	Accumulated reserves US\$	Other reserves US\$	Total Equity US\$
Balance at 1 January 2016	159,300	237,688	129,110	526,098
Profit/(loss) after taxation for the period	-	(292,398)	-	(292,398)
Other reserve movements	-	-	50,000	50,000
Dividends	-	-	-	-
Total transactions with owners of the company, recognised directly in equity as at 31 December 2016	159,300	(54,710)	179,110	283,700

Wellspring Industry (UK) Limited

Consolidated statement of cash flows For the year ended 31 December 2016

	2016 US\$	2015 US\$
Cash flows from operating activities		
Net income/(loss)	(292,398)	(1,307,321)
Adjustments for:		
Depreciation of plant and equipment	151,182	159,630
Deferred tax asset	134,796	35,703
Changes in assets and liabilities:		
Accounts receivable	(67,634)	480,713
Inventories	(129,442)	35,740
Prepaid expenses and other current assets	(147,385)	54,795
Accounts payable	(270,706)	213,850
Accrued expenses and other current liabilities	521,948	(101,645)
Income tax payable	(124,733)	(513,911)
Advance from customers	74,772	(114,600)
Deferred revenue	9,369	(82,606)
Deferred rent	23,949	(33,506)
Net cash from operating activities	(116,282)	(1,173,158)
Cash flows from investing activities		
Purchase of plant and equipment	(5,657)	(109,135)
Repayments of loan receivables	-	(84,700)
Net cash used in investing activities	(5,657)	(193,835)
Cash flows from financing activities		
Dividend distribution	-	(1,339,033)
Loan payable	61,942	291,589
Repayment of loan notes – related party	(121,000)	-
Shareholder contributions	50,000	57,410
Net cash used in financing activities	(9,058)	(990,034)
Net change in cash and cash equivalents	(130,997)	(2,357,027)
Cash and cash equivalents as at beginning of the financial period	344,229	2,701,256
Cash and cash equivalents as at end of the financial period	<u>213,232</u>	<u>344,229</u>

Wellspring Industry (UK) Limited

Notes to the financial statements

For the year ended 31 December 2016

1 Company Information

(a) Reporting entity

Wellspring Industry (UK) Limited (the 'Company'), incorporated on 20th August 2013, is the Holding company of Wellspring Industry USA Holdings Inc. The Company did not trade during the period. On 14th October 2014, the Company acquired Wellspring Industry USA Holdings Inc. via a share for share exchange.

The registered office is established at Becket House, 36 Old Jewry, London, EC2R 8DD.

The object of the Company is to remain a non-trading holding Company of the trading Group in the USA.

The principal activity of the Group is

- Distribution – Wellspring primarily sells frozen yogurt powders, frozen yogurt machines, and yogurt machines to the Company's licensees, master licensors, and other customers. Wellspring also sells flavoring syrups and powders, frozen yogurt toppings and general supplies such as paper cups and serving wares under both Tutti Frutti Frozen Yogurt® and Wellspring's generic Yoflavor® brand names.
- Distribution Fees (USA) – Prior to June 2012, the Wellspring and ILTF received certain distribution fees of the Tutti Frutti Frozen Yogurt® brand from customers in the United States of America. The distribution fee is a one-time fee which under the distribution agreement, the fee is fully refundable within one year of the agreement if the customer is unable to find a store location or is unable to open a store due to unforeseen reasons. Furthermore, the Company is required to provide training under the agreement. Following June 2012, ILTF received distribution fees of the Tutti Frutti Frozen Yogurt® brand from customers in the United States of America.
- Master Distribution Fees (International) - The Company charges a one-time non-refundable master distribution fee (also known as territory fee) with no termination or expiration period. These fees were recorded on Golden Global and ILTF.
- OMB primarily sells bakery mixes, supplies, coffee mixes and machines to the Company's licensees, master licensors, and other customers.

Wellspring Industry (UK) Limited

Notes to the financial statements For the year ended 31 December 2016

(b) Details of subsidiaries

As at the date of this report after a Restructuring Exercise for entities under common control, the Group has the following subsidiaries:

Name of subsidiary	Country of Incorporation	Principal activities	Effective equity interest 2016 (%)
Wellspring Industry Inc.	United States of America	Sales of yogurt related products	100*
OMB Inc.	United States of America	Sales of bakery & coffee related products	100*
ILTF Inc.	United States of America	Distributor of license	100*
Wellspring Industry USA Holdings	United States of America	Investment holding	100*
Wellspring International Limited	United States of America	Investment holding	100*
CBL Inc	United States of America	Investment holding	100%

*The company incorporated under California Corporation Code is not required to be audited, unless it is a publicly traded corporation.

2 Significant accounting policies

(a) Basis of preparation

This financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statement are described in Significant Accounting Policies.

The consolidated financial statements include Wellspring Industry Inc, Wellspring Industry USA Holdings, Wellspring International Limited, ILTF, and OMB as of and for the years ended 31 December 2016 and 2015 and CBL as of and for the year ended 31 December 2016. All intercompany transactions between the companies as of and for the years ended 31 December 2016 and 2015 have been eliminated. The consolidated financial statements are stated as if the Wellspring Industry (UK) Limited was formed from the beginning of the period for the periods being presented in the consolidated financial statements.

Wellspring Industry (UK) Limited

Notes to the financial statements

For the year ended 31 December 2016

(b) Basis of measurement

These financial statements of the Company have been prepared under the historical cost convention except for certain financial instruments that are measured at fair values, as explained in the accounting policies below.

These consolidated financial statements are presented in US dollar, being the functional currency of the Company and the Group. All financial information presented in US dollar has been rounded to the nearest dollar. These consolidated financial statements have been prepared on the historical cost basis of accounting.

(c) Going concern

These consolidated financial statements have been prepared on a going concern basis.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

The significant areas of estimation include provision for bad debts, inventory reserve, warrant liability reserve and the measurement of depreciation expense.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the estimation of the tax basis of assets and liabilities and related deferred income tax assets and liabilities, amounts recorded for uncertain tax positions, the measurement of income tax expense and indirect taxes.

(e) Cash and Cash Equivalents

For purposes of the Balance Sheets and the Statements of Cash Flows, the Company considers all highly liquid investments with an original maturity of 90 days or less at the date of purchase to be cash equivalents. Cash and cash equivalents represent amounts held by the Company for use by the Company, and are recorded at cost which approximates fair value.

(f) Accounts Receivable

Accounts receivable are carried at original invoice amount less the allowance for doubtful accounts based on a review of all outstanding amounts at year end. Management determines the allowance for doubtful accounts based on a combination of write-off history, aging analysis, and any specific known troubled accounts. Trade receivables are written off when deemed uncollectible.

Wellspring Industry (UK) Limited

Notes to the financial statements

For the year ended 31 December 2016

(g) Inventories

Inventories primarily consist of finished goods and are stated at the lower of cost or market, cost being determined on the weighted average costing method which approximates actual cost. The Company maintains an allowance for potentially excess and obsolete inventories and inventories that are carried at costs that are higher than their estimated net realizable values.

The Company writes down its obsolete or slow moving inventories based on an assessment of their estimated net selling price. Inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The management specifically analyses sales trend and current economic trends when making a judgment to evaluate the adequacy of the write down for obsolete or slow moving inventories. Where expectations differ from the original estimates, the differences would impact the carrying amount of inventories.

(h) Revenues

The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Customer payments received prior to the recognition of revenue are recorded as deferred revenue (for license fee income) and advance from customers (other than license fee income). Revenue is measured at the fair value of the consideration received or receivable, net of any discounts. Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction would flow to the Company, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the Company's activities as follows:

- **Sale of goods** – Revenue from sale of goods represents the invoiced value arising from the sale of frozen yogurt machines, yogurt machine parts, yogurt powders, yogurt powder syrup, supplies, and toppings. Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the customers and where the Company retains no continuing managerial involvement over the goods, which coincides with delivery of goods and services and acceptance by customers.
- **License fee income (Domestic)** – The Company charges a one-time license fee which under the license agreement, the license fee is fully refundable within one year of the agreement if the licensee is unable to find a location or is unable to open a store due to an unforeseen reason. Furthermore, the Company is required to provide training. The Company recognizes license fee income at the time the licensee opens the store and after training is provided. The license fees collected but not earned is deferred and recorded as deferred revenue until the licensee opens the store and training is received.
- **Master License Fee (International)** – The Company charges a one-time non-refundable master license fee (also known as territory license). Furthermore, the Company is required to provide training. The Company recognizes master license fee when the master license agreement is signed and collection is reasonably assured. The Company has not historically provided any refunds from any master license fees.

Wellspring Industry (UK) Limited

Notes to the financial statements

For the year ended 31 December 2016

(i) Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Depreciation and amortization are provided using the straight-line method over the following estimated useful lives:

Furniture and fixtures	5-8	years
Computer software and equipment	4-5	years
Machinery and equipment	4-5	years
Vehicles	4-5	years

At the end of each reporting period, the carrying amount of an item of property and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

The residual values, useful lives and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss.

Wellspring Industry (UK) Limited

Notes to the financial statements

For the year ended 31 December 2016

(j) Financial Instruments

The Company records its financial assets and liabilities at fair value, which is defined under the applicable accounting standards as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measure date. The Company uses valuation techniques to measure fair value, maximizing the use of observable outputs and minimizing the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs include management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation.

Cash equivalents, accounts receivable, net of allowance, accounts payable, accrued liabilities, bank indebtedness, are carried at cost, which management believes approximates fair value because of the short-term maturity of these instruments.

(k) Deferred Rent

Deferred rent represents the difference between rent paid and the amounts expensed for operating leases. Certain leases have scheduled rent increases. The Company recognizes rent expense for rent increases on a straight-line basis over the term of the underlying leases, without regard to when rent payments are made. The calculation of straight-line rent is based on the "reasonably assured" lease term and may exceed the initial non-cancellable lease term.

(l) Warranty Reserve

The Company incurs warranty expense when the frozen yogurt machines become defective. For California retailers, there is a one year warranty that covers the labor and parts for fixing the frozen yogurt machines. For out of state (CA) retailers, there is a one year warranty that only covers the parts. Warranty expense includes technicians' labor hours, travel costs, tools, supplies, etc.

The Company records warranty liability based on historical sales, actual warranty expenses incurred, and warranty period. Warranty expenses and increase or decrease in warranty liability is recorded in cost of sales.

Wellspring Industry (UK) Limited

Notes to the financial statements

For the year ended 31 December 2016

(m) Income Taxes

Current tax for each taxable entity is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the financial position date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred tax is recognized using the financial position method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred income tax asset is recorded. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the financial position date. Current and deferred taxes relating to items recognized directly in equity are recognized in equity and not in the income statement.

Wellspring Industry USA Holidays Inc. has elected under the Internal Revenue Code to be taxed as an S Corporation prior to July 15, 2013. In lieu of corporation income taxes, the stockholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. The S-Corporation is subject to 1.5% of taxable income.

Wellspring Industry (UK) Limited

Notes to the financial statements

For the year ended 31 December 2016

On July 15, 2013, Wellspring Industry USA Holidays Inc. filed a statement to revoke its S-Corp selection effective July 1, 2013, thus elected to file as a C-Corporation effective July 1, 2013 for income tax purposes. As a general rule, the C-Corporation is subject to different tax rates based on taxable income.

(n) Impairment of Non-Current Assets

The Company reviews and tests the carrying amounts of property and equipment when an indicator of impairment is considered to exist. Impairment assessments on property and equipment are conducted at the level of cash generating units (CGUs), which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets.

An impairment loss is recognized for any excess of the carrying amount of a CGU over its recoverable amount. Any impairment is recognized as an expense in the statement of income in the reporting period in which the impairment occurs. Where it is not appropriate to allocate the loss to a separate asset, an impairment loss related to a CGU is allocated to the carrying amount of the assets of the CGU on a pro rata basis based on the carrying amount of its non-monetary assets.

Impairment losses for property and equipment are reversed if the conditions that gave rise to the impairment are no longer present and it has been determined that the asset is no longer impaired as a result. This reversal is recognized in the statement of income and is limited to the carrying value that would have been determined, net of any depreciation where applicable, had no impairment charge been recognized in prior years. When an impairment reversal is undertaken, the recoverable amount is assessed by reference to the higher of value-in-use (VIU) and fair value less costs to sell (FVLCS).

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For the year ended 31 December 2016

3 Plant and equipment

	Computer Software & Equipment US\$	Office furniture and equipment US\$	Research & development equipment US\$	Motor vehicles US\$	Warehouse equipment and fixture US\$	Total US\$
2016						
Cost						
At 1 January 2016	128,770	161,144	484,075	210,809	330,614	1,315,412
Adjustment	2,161	(9,571)	7,185	3,390	(3,165)	-
Additions	5,659					5,659
At 31 December 2016	<u>136,590</u>	<u>151,573</u>	<u>491,260</u>	<u>214,199</u>	<u>327,449</u>	<u>1,321,071</u>
Accumulated depreciation						
At 1 January 2016	112,146	78,390	414,333	160,086	227,481	992,436
Depreciation for the financial year	<u>10,963</u>	<u>22,843</u>	<u>50,182</u>	<u>19,953</u>	<u>47,243</u>	<u>151,184</u>
At 31 December 2016	<u>123,109</u>	<u>101,233</u>	<u>464,515</u>	<u>180,039</u>	<u>274,724</u>	<u>1,143,620</u>
Carrying amount						
At 31 December 2016	<u>13,481</u>	<u>50,340</u>	<u>26,745</u>	<u>34,160</u>	<u>52,725</u>	<u>177,451</u>

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Notes to the financial statements

For the year ended 31 December 2016

4 Deferred tax assets/(Deferred tax liabilities)

4.1. Income tax recognised in statement of comprehensive income

	2016 US\$	2015 US\$
Deferred tax asset	<u>587,764</u>	<u>722,560</u>

The movements for the period in deferred tax position is as follows:

Balance as at the end of the financial period

- Deferred tax assets	587,764
- Deferred tax liabilities	<u>-</u>

(Deferred tax liabilities)/Deferred tax assets are attributable to the following temporary differences computed at the respective countries' statutory income tax rate in which the Group operates:

Deferred tax assets

	2016 US\$	2015 US\$
Net operating loss	306,177	350,163
	(14,900)	(14,900)
Bad debt expense	290,015	361,368
Inventory reserve	-	33,836
State taxes & other	6,472	(7,907)
Balance as at the end of the financial period	<u>587,764</u>	<u>722,560</u>

5 Inventories

	2016 US\$	2015 US\$
Supplies & yogurt toppings	563,969	249,844
Yogurt liquids and powders	291,896	421,903
Yogurt machines	688,661	983,442
Raw material	354,740	114,671
	<u>1,899,302</u>	<u>1,769,860</u>
Less obsolete stock	(84,943)	(84,943)
	<u>1,814,359</u>	<u>1,684,917</u>

During the financial year ended 31 December 2016, the Group carried out a review of the realisable values of its inventories and no further write down was considered material to impact the financial statements.

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Notes to the financial statements

For the year ended 31 December 2016

6 Trade and other receivables

Trade receivables are non-interest bearing and the normal credit terms granted by the Company range from cash terms to 60 days from date of invoice. They are recognized at their original invoice amounts, which represent their fair values on initial recognition. All trade receivables are denominated in the US Dollar.

	2016 US\$	2015 US\$
Trade receivables		
Third parties	807,810	939,665
Allowance for impairment loss on third party trade receivables	(725,192)	(924,681)
	82,618	14,984
Prepaid expenses and other current assets	232,651	85,266
	<u>315,269</u>	<u>100,250</u>

Receivables that are neither past due nor impaired – Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

Receivables that are past due but not impaired – Trade receivables that are past due but not impaired possess high creditworthiness and good payment records. The Group closely monitors the financial standing of these counter parties on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

Movements in allowance for impairment loss on third parties trade receivables were as follows:

	2016 US\$	2015 US\$
At 1 January	924,681	523,716
Allowance made during the financial period	-	400,965
Allowance written back during the financial period	(199,489)	-
Balance as at the end of financial period	<u>725,192</u>	<u>924,681</u>

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to those debtors that exhibit significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

7 Cash and cash equivalents

	2016 US\$	2015 US\$
Cash and bank balances	<u>213,232</u>	<u>344,229</u>

Cash and cash equivalents as at the end of the respective reporting periods are denominated in United States dollar.

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Notes to the financial statements

For the year ended 31 December 2016

8 Trade and other payables

	2016 US\$	2015 US\$
Non-current		
Accrued expenses	-	-
Current		
Trade payables - third parties	581,955	814,520
Advance payment from customers	170,246	95,474
Accrued expenses	540,171	18,223
Deferred income	112,074	78,756
Provision for warranty	11,281	11,281
Business tax payables	338,401	463,134
Dividend payable	409,640	997,708
Loan payable	782,458	291,589
	<u>2,946,226</u>	<u>2,770,685</u>
Total trade and other payables	2,946,226	2,770,685
Less:		
- Advance payment from customers	(170,246)	(95,474)
- Deferred income	(112,074)	(78,756)
- Provision for warranty	(11,281)	(11,281)
- Business tax payables	(338,401)	(463,134)
Total financial liabilities carried at amortised cost	2,314,224	2,122,040

9 Revenue

	2016 US\$	2015 US\$
Sale of products (other than yogurt machines)	7,578,169	10,127,062
Yogurt machines	660,107	1,195,001
License fee	5,000	64,125
Master license fee	573,000	355,000
Other	286,808	406,028
Total revenue	9,103,084	12,147,216
Returns, allowances and other adjustments	(235,486)	(301,396)
Net revenue	8,867,598	11,845,820

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Notes to the financial statements

For the year ended 31 December 2016

10 Income taxes

The Group has elected under the Internal Revenue Code to be taxed as an S Corporation prior to July 15, 2013. In lieu of corporation income taxes, the stockholders of an S Corporation are taxed on their proportionate share of the Group's taxable income. The S-Corporation is subject to 1.5% of taxable income.

On July 15, 2013, the Group filed a statement to revoke its S-Corp selection effective July 1, 2013, thus elected to file as a C-Corporation effective July 1, 2013 for income tax purposes. As a general rule, the C-Corporation is subject to different tax rates based on taxable income.

The weighted average applicable federal tax rate was 34%, and state tax rate was 8.8% for the year ended December 31, 2016.

The provision (benefit) for income taxes consisted of the following:

	2016 US\$	2015 US\$
Current income tax		
- Federal	(4,313)	8,788
- State	2,400	2,400
	<u>(1,913)</u>	<u>11,188</u>
Deferred tax		
- Federal	51,048	44,254
- State	(12,453)	(17,340)
	<u>38,595</u>	<u>26,914</u>
Total income tax expense recognised in profit or loss	<u>36,682</u>	<u>38,102</u>

11 Commitments and contingencies

Operating Lease Commitments

The Group has entered into non-cancellable lease agreements for premises, resulting in future rental commitments which may, subject to certain terms in the agreements, be revised accordingly or upon its maturity based on prevailing market rates. The Group incurred rent expense of \$431,097 and \$443,676 for the years ended December 31, 2016 and 2015, respectively. The Group has also entered into non-cancellable operating leases on vehicles and equipment. The Group incurred lease expense related to vehicles and equipment of \$30,716, \$60,392 for the years ended December 31, 2016 and 2015, respectively.

Deferred rent represents the difference between rent paid and the amounts expensed for operating leases. Certain leases have scheduled rent increases. The Group recognizes rent expense for rent increases on a straight-line basis over the term of the underlying leases, without regard to when rent payments are made. The calculation of straight-line rent is based on the "reasonably assured" lease term and may exceed the initial non-cancellable lease term.

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Notes to the financial statements

For the year ended 31 December 2016

11 Commitments and contingencies (continued)

The Group has aggregate future minimum lease commitments as of December 31, 2016 is as follows:

Years ended December 31,	Facility US\$	Vehicles US\$	Total US\$
2017	390,507	8,484	398,991
2018	402,222		402,222
2019	414,289		414,289
2020	426,517		426,517
2021	436,132		436,132
Thereafter	36,344		36,344
	<u>2,106,011</u>	<u>8,484</u>	<u>2,114,495</u>

12 Contingent Liabilities

The Group is subject to various legal proceedings from time to time as part of its business. As of 31 December 2016, the Company was a party to certain legal proceedings or threatened legal proceedings. They include the following:

- On December 16, 2016, a former employee, who was terminated as of October 31, 2016, filed a claim for wrongful termination and overtime wages. The Company believes the claim is without a merit.
- On September 12, 2014, Asha Vico, S.L., a distributor of the Wellspring's Tutti Frutti Frozen Yogurt products in Spain ("Asha Vico") brought a legal action against Wellspring and its affiliate Golden Global Limited ("Golden Global") in the Superior Court of the State of California in the County of Los Angeles. Asha Vico alleged breach of contract (relating to the three (3) Tutti Frutti Product Distribution Agreements) and breach of the implied covenant of good faith and fair dealing. Asha Vico paid a total of US\$35,000 to Wellspring in relation to the three (3) agreements, and seeks an award of US\$5 million from Wellspring. On September 15, 2014, Asha Vico moved for a temporary restraining order, seeking to bar Wellspring and Golden Global from granting the master license to distribute Tutti Frutti Frozen Yogurt products in Spain to a third party, which Wellspring and Golden Global successfully opposed and was denied by the court. On October 6, 2014, Wellspring through Golden Global filed a demand for arbitration with the American Arbitration Association (the "AAA") seeking declaratory reliefs that the distribution agreement with Asha Vico is to be terminated immediately or at the latest by April 6, 2015 under the terms of the distribution agreement. On October 14, 2014, Wellspring moved to compel arbitration of the Litigation as mandated by the parties' contractual arbitration agreement in the distribution agreement. On October 16, 2014, Asha Vico filed a motion for preliminary injunction seeking to bar the Company and Golden Global from granting the master license to distribute Tutti Frutti Frozen Yogurt products in Spain to a third party. Wellspring and Golden Global successfully opposed the motion for preliminary injunction and the court denied it. In January 2015, Asha Vico filed its counterclaims with the AAA. The case was dismissed with prejudice pursuant to a settlement made May 6, 2016 among the parties. The Company has paid the \$150,000 out of \$350,000 settlement fee in 2016.

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Notes to the financial statements

For the year ended 31 December 2016

12 Contingent Liabilities (continued)

- On November 20, 2012, the Securities Enforcement Branch ("SEB") of the Department of Commerce and Consumer Affairs, State of Hawaii, notified ILTF, Inc. and OMB, Inc. that it had commenced an investigation to determine whether or not any violation of Hawaii Franchise Law has been committed relating to Company distribution activities in that state (collectively, the "Hawaii Matter"). Both ILTF, Inc. and OMB, Inc. have responded to information requests from the SEB. Accordingly, the Franchise Disclosure Document ("FDD") has been delivered to the State of Hawaii's SEB as of December 24, 2014, and later amended on March 31, 2015. The Company paid penalties of \$16,000 in 2014 to settle the violation and claim.
- In June, 2016, a Company affiliate had received a subpoena from the California Department of Business Oversight requiring the Company to produce certain documents and records from January, 2010 to the present relating to distributorship offered and/or sold in the State of California. As December 31, 2016, there is a settlement negotiations with the California Department of Business Oversight to resolve the matter have begun. The company has accrual \$160,000 in 2016 in order to settle the possible related economic repercussions.

The Group does not believe any of the legal proceedings noted above will have any adverse outcome of which, individually or in the aggregate, would have a material adverse effect on its business, financial condition and results of operations.

13 Profit for the financial period

The company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its profit and loss account in these financial statements. The group profit for the year includes a profit after tax of £Nil which is dealt with in the financial statements of the parent company.

14 Subsequent events

The Group evaluated all events or transactions that occurred after December 31, 2016 up through the date the financial statements were available to be issued. During these periods, the Company did not have any material recognizable subsequent events required to be disclosed as of and for the year ended December 31, 2016.

15 Prior year adjustments

During the year the directors revised the group accounting policy to restate the figures to that from the beginning of the period for the period, due to common control.