



上海申洲大通会计师事务所有限公司

Shanghai Shen Zhou Da Tong Certified Public Accountants

SZDT CPAs Co., Ltd.
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Auditors' Report

SZDT(2016)SZ

To Board of Directors

We have audited the accompanying financial statements of Atul China Ltd. Including balance sheet as of March 31, 2016, and the statement of income and cash flows for the period then ended and a summary of significant accounting policies and other explanatory notes.

I. Management's Responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises and Enterprise Accounting System. The responsibility includes: (1) preparing financial statements in accordance with Accounting Standards for Business Enterprises and Enterprise Accounting System and make them fair presented; (2) designing, implementing and maintaining necessary internal control so that the financial statements are free from material misstatement, whether due to fraud or error;

II. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Chinese Certified Public Accountants. Those standards require that we comply with professional ethical requirements, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves conducting audit procedures to obtain evidences supporting the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditors' judgments including an evaluation on the risk of material misstatement, whether due to fraud or errors. When making risk evaluation, the auditors consider internal control relevant to the company's preparation and fair presentation of financial statements to design appropriate audit procedures, but not for the purpose of expressing an opinion on the internal control's effectiveness. An audit also includes assessing the appropriateness of the accounting policies adopted and the reasonableness of the accounting estimates made by management, as well as evaluating the overall financial statements presentation.

We believe the audit evidences we have obtained are sufficient and appropriate and provide a basis for our opinion.

III. Opinion

In our opinion, the Company's financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and Enterprise Accounting System, in all material respects, and the financial statements give a true and fair view of the financial position of Atul China Ltd. as of March 31, 2016 and the results of its operations and cash flows for the period then ended.



Han Weijia, Certified Public Accountant
Lu genhua, Certified Public Accountant

Shanghai Shenzhou Datong CPAs Co., Ltd.
Shanghai, P.R. China
Date: 2016-4-11

Atul China Ltd.
Financial Statements and Disclosures
For the Year Period Ended March 31, 2016
(Monetary Amounts in RMB Except Specially Noted)

Balance Sheet	<u>2016-3-31</u>	<u>2015-3-31</u>
Current assets		
Bank balance and cash	663,236.82	405,542.30
Trade accounts receivable	2,864,039.76	11,781,924.50
Payment in advance	27,467.00	24,467.00
Other accounts receivable	179,102.73	264,688.38
Prepaid expenses	-	-
Inventories	167,172.52	1,055,939.23
	<u>3,901,018.83</u>	<u>13,532,561.41</u>
Fixed assets		
Fixed assets, at cost	62,656.05	62,656.05
Less: Accumulated depreciation	(46,114.15)	(41,120.59)
Fixed assets, net value	<u>16,541.90</u>	<u>21,535.46</u>
Intangible assets	-	-
Long-term prepaid expenses	17,500.30	31,500.22
	<u>34,042.20</u>	<u>53,035.68</u>
Total assets	<u><u>3,935,061.03</u></u>	<u><u>13,585,597.09</u></u>
Current liabilities		
Trade accounts payable	1,887,975.82	11,380,993.19
Advance from customers	19,000.00	-
Other accounts payable	10,844.05	10,844.05
Taxes payable	11,257.17	(294,078.15)
Other levies payable	1,457.34	295.40
Other current liabilities	-	-
	<u>1,930,534.38</u>	<u>11,098,054.49</u>
Owner's equity		
Paid-in capital	3,393,385.00	3,393,385.00
Retained earnings	(1,388,858.35)	(905,842.40)
	<u>2,004,526.65</u>	<u>2,487,542.60</u>
Total liabilities and owner's equity	<u><u>3,935,061.03</u></u>	<u><u>13,585,597.09</u></u>

Atul China Ltd.
 Financial Statements and Disclosures
 For the Year Period Ended March 31, 2016
 (Monetary Amounts in RMB Except Specially Noted)

Income Statement	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
Sales revenue	28,981,699.19	87,078,253.17
Less: Cost of sales	28,022,017.35	84,463,762.81
Sales tax	-	14,545.93
Sales profit	<u>959,681.84</u>	<u>2,599,944.43</u>
 Add: Other operating profit	 1,176,319.16	 554,795.67
Less: Administrative expenses	2,444,788.43	2,120,776.42
Financial expenses	<u>175,366.64</u>	<u>194,161.98</u>
Operating profit/(loss)	<u>(484,154.07)</u>	<u>839,801.70</u>
 Add: Non-operating income	 1,138.12	 1,390.84
Less: Non-operating expenses	-	6,919.02
Profit/(loss) before income tax	<u>(483,015.95)</u>	<u>834,273.52</u>
 Less: Income tax	 -	 35,720.98
Net profit/(loss)	<u>(483,015.95)</u>	<u>798,552.54</u>

Atul China Ltd.
 Financial Statements and Disclosures
 For the Year Period Ended March 31, 2016
 (Monetary Amounts in RMB Except Specially Noted)

Cash Flows Statement	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
Cash flows in operating activities		
Cash received from sales of goods & render of service	39,991,869.53	86,176,244.52
Cash received from Subsidy income	-	-
Cash received from other operating activities	3,208.77	7,730.73
Cash paid for procurements of goods & services	37,147,290.65	84,252,175.62
Cash paid to or for staff	1,327,897.64	922,264.50
Cash paid for taxation	258,272.49	397,219.46
Cash paid for other operating activities	900,825.84	1,354,813.61
Net cash flow in operating activities		<u>(742,497.94)</u>
Cash flows in investing activities		
Net cash received from disposal of capital assets	-	196.15
Cash payment for procurement of capital assets	-	4,628.98
Net cash flow in investing activities	-	<u>(4,432.83)</u>
Cash flows in financing activities		
Net cash flows in financing activities		
Influences of changes in exchange rates on cash	<u>(103,097.16)</u>	<u>(79,585.83)</u>
Net increase in cash & cash equivalents	<u>257,694.52</u>	<u>(826,516.60)</u>
Net increase in cash & cash equivalents		
Ending balance of cash & cash equivalents	663,236.82	405,542.30
Less: Beginning balance of cash & cash equivalents	405,542.30	1,232,058.96
Net increase in cash & cash equivalents	<u>257,694.52</u>	<u>(826,516.66)</u>

I. General

Atul China Ltd. ("The Company" hereafter) is a wholly foreign owned enterprise established by Atul Limited India on April 21, 2004 in Pudong New Area. Its approved operational period is 20 years. The company is mainly engaged in international trade, re-export business, trade and trade agent among the enterprises in bonded zone; trade with the enterprises outside the bonded zone through domestic enterprise agents with import-export operations right; simple mercantile process and commodity exhibition inside the bonded zone; consulting service concerned trade inside the bonded zone (operate according to license if relating to operation permission). The Company's registered capital is USD 410,000. Refer to the note 10 on paid-in capital for the detail information on the capital contribution.

II. Summary of Significant Accounting Policies

Accounting system & accounting standards

The company has adopted the "Accounting Standards for Business Enterprises", the "Accounting System for Business Enterprises" and the supplementary regulations thereto.

Basis of accounting & principle of measurement

The Company follows the accrual basis of accounting and uses the historical cost convention as the principle of measurement.

Financial year

The company's financial year in China is from January 1 to December 31, but the company can also have audited financial statements from April 1 to March 31 of next year as per the requirement of investor, Atul Limited, India.

Reporting currency

The company's reporting currency is RMB Yuan.

Foreign currency transactions

Other than the calculation of foreign capital, foreign currency transactions are translated into the reporting currency at the prevailing market exchange rate of the first day of each month quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into the reporting currency at the prevailing market exchange rate quoted by the People's Bank of China. Translation gain and loss are recognized in the income statement.

Cash and cash equivalent

The cash refers to cash on hand and bank deposits available for payment at any time; the cash equivalents refer to short term, no more than 3 months, and highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short-term investment

The short-term investments include those debentures, bonds and fund investments that can be realized at any time and are not to be held more than one year. The valuation of short-term investment at the end of the year is calculated by the lower one between the cost and market value, wherein for the difference of market value lower than cost, the provision for devaluation is withdrawn for short-term investment.

Accounts receivable and provision for bad debt

Accounts receivable includes accounts receivable and other accounts receivable. The company uses allowance method to register possible bad debts. Accounts receivable is stated as the net value after provision for bad debt deducts from the carrying amounts.

Inventories

Inventories include raw materials and finished goods etc, which are stated at lower of cost or net realizable value concept.

Inventories are stated at acquisition cost. Deliveries of inventories are stated based on first-in-first-out method.

Inventory provision for devaluation

Inventories of balance sheet date are stated at lower of cost or net realizable value. If the inventory cost is higher than its net realizable value, provision for devaluation is determined by the difference between net realizable selling value and inventory cost of a single item.

The Company made no inventory provision for devaluation in 2015-2016.

Fixed assets and depreciation

Fixed assets refer to durable assets with acquisition cost more than RMB 1,000 and estimated service life more than 1 year.

Fixed assets are stated at acquisition cost. Depreciated is charged to write off the cost of assets over their estimated useful lives from the month after they are put into use, using the straight-line method. The estimated salvage value, service life and annual depreciation rate of each category of fixed assets are as follows:

Categories	Estimated Salvage Value	Service Life	Annual Depreciation rate
Leasehold Improvements	0%	5 years	20%
Office equipment	10%	5 years	18%

Deferred assets

Deferred assets are amortized over the beneficial period.

Revenue recognition

- (1) Revenue from sales of goods is recognized when significant risk and benefit relating to the ownership are transferred to buyer and, when The Company can no longer control the goods sold and, when economic interest relating to the transaction can flow to The Company and, when related income and cost can be properly measured.
- (2) Service income is recognized as revenue if the render of service is completed in the same year of the contract signing. For services cannot be completed in the year of the contract signing, percentage of completion is applied if the results of services can be properly measured, otherwise, the related expenses incurred are recognized as both the income and expenses of the year on condition they will sure be compensated.
- (3) Interest income is recognized on a time proportion basis taking into account deposit balances and the effective yield.
- (4) Subsidy income is recognized upon receipt.

III. Taxation

Value added tax (VAT)

The sales of products and purchased stock for resale are subject to VAT. The applicable tax rate for local sales (output VAT) is 17%. Input VAT on stock purchase can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

Corporate income tax (CIT)

The charge for current income tax is based on the results of the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been substantively enacted by the balance sheet date. Currently, the CIT rate for The Company is 25%.

Atul China Ltd.
 Financial Statements and Disclosures
 For the Year Period Ended March 31, 2016
 (Monetary Amounts in RMB Except Specially Noted)

Other taxes

Business tax is 5% of service income.

V. Other Notes to Financial Statements

1、 Bank balance and cash

	<u>2016-3-31</u>	<u>2015-3-31</u>
Petty cash	147.59	3,596.88
Bank deposit	663,089.23	401,945.42
CNY	228,957.00	221,904.95
USD	434,132.23	180,040.47
Total	<u>663,236.82</u>	<u>405,542.30</u>

2、 Trade accounts receivable

<u>2016-3-31</u>		
Carrying value	Provision	Net value
<u>2,864,039.76</u>	-	<u>2,864,039.76</u>

Accounts with significant balance are as follows:

<u>Debtors</u>	<u>Original Currency</u>	<u>Equivalent RMB</u>	<u>Aging</u>
AUI	266,073.53	1,719,154.29	Within 1 year

3、 Other accounts receivable

<u>2016-3-31</u>		
Carrying value	Provision	Net value
<u>179,102.73</u>	-	<u>179,102.73</u>

Atul China Ltd.
 Financial Statements and Disclosures
 For the Year Period Ended March 31, 2016
 (Monetary Amounts in RMB Except Specially Noted)

Accounts with significant balance are as follows:

<u>Debtors</u>	<u>Original Currency</u>	<u>Equivalent RMB</u>	<u>Aging</u>
PO DIV	6,313.91	40,795.44	Within 1 year

4、 Inventories and provision for inventory impairment

	<u>2016-3-31</u>	<u>2015-3-31</u>
Goods in stock-cost	167,172.52	1,055,939.23
Less:Provision for decline in the value of inventories		-
Net value	<u>167,172.52</u>	<u>1,055,939.23</u>

5、 Fixed assets

	<u>Office Equipment</u>
At cost	
Balance at 2015-4-1	62,656.05
Addition	-
Disposal/Retirement	-
Balance at 2016-3-31	<u>62,656.05</u>
Accumulated depreciation	
Balance at 2015-4-1	41,120.59
Charge in 2014.04-2015.03	4,993.56
Write-off	-
Balance at 2016-3-31	<u>46,114.15</u>
Net value	
Balance at 2015-4-1	<u>21,535.46</u>
Balance at 2016-3-31	<u>16,541.90</u>

Atul China Ltd.
 Financial Statements and Disclosures
 For the Year Period Ended March 31, 2016
 (Monetary Amounts in RMB Except Specially Noted)

6、 Trade accounts payable

	<u>2016-3-31</u>	
	Original currency	Equivalent RMB
USD	292,202.04	1,887,975.82
RMB	-	-
	<u>292,202.04</u>	<u>1,887,975.82</u>

Accounts with significant balance are as follows:

<u>Creditors</u>	<u>Original currency</u>	Equivalent RMB	<u>Aging</u>
Changshan Haicheng Chemical Co.,Ltd	122,403.95	790,876.40	Within 1 year

7、 Taxes payable

	<u>2016-3-31</u>
Value added tax	(25,581.00)
Business tax	24,288.86
Individual income tax	12,306.42
Income tax	-
Urban construction tax	242.89
	<u>11,257.17</u>

8、 Other levies payable

	<u>2016-3-31</u>
Educational surcharge payable	1,214.45
Riverway maintenance fee	242.89
	<u>1,457.34</u>

Atul China Ltd.
 Financial Statements and Disclosures
 For the Year Period Ended March 31, 2016
 (Monetary Amounts in RMB Except Specially Noted)

9、 Other accounts payable

	<u>2016-3-31</u>	
	Original currency	Equivalent RMB
RMB	<u>10,844.05</u>	<u>10,844.05</u>

10、 Paid-in capital

	<u>Beginning and Ending Balance</u>		
	<u>Amount in USD</u>	<u>Share</u>	Equivalent RMB
Atul Limited	<u>410,000.00</u>	100%	<u>3,393,385.00</u>

The above capital contribution has been verified by Shanghai Shenzhou Certified Public Accountants, which issued *HSZ(2005)YZ#157 Capital Verification Report*.

11、 Retained earnings

	<u>2016-3-31</u>
Balance at 2015-4-1	(905,842.40)
Add: Net profit	(483,015.95)
Balance at 2016-3-31	<u>(1,388,858.35)</u>

12、 Revenue from sales of goods

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
Revenue from domestic sales	4,885,153.84	20,370,452.31
Revenue from export sales	24,096,545.35	66,707,800.86
	<u>28,981,699.19</u>	<u>87,078,253.17</u>

Atul China Ltd.
 Financial Statements and Disclosures
 For the Year Period Ended March 31, 2016
 (Monetary Amounts in RMB Except Specially Noted)

13、 Cost of sales

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
Cost of sales	28,022,017.35	84,463,762.81
	<u>28,022,017.35</u>	<u>84,463,762.81</u>

14、 Sales taxes

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
Riverway maintenance tax	-	2,077.99
Urban construction tax	-	2,077.99
Educational surtax	-	10,389.95
Total	-	<u>14,545.93</u>

15、 Other operating profit

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
Commission income	<u>1,242,809.44</u>	<u>554,795.67</u>

This includes RMB235,944.21 (USD35,965.44) being amount of price correction during 2015-16

16、 Administration expenses

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
	<u>2,444,788.43</u>	<u>2,120,776.42</u>
Including:		
Salary	1,327,897.64	922,264.50
Social benefit	255,987.36	201,760.12
Office supply	11,632.20	16,210.21
Traveling	92,234.20	86,926.70
Transportation	6,316.00	3,674.00
Entertainment	28,027.80	25,126.00
Rent	327,604.00	219,031.00

Atul China Ltd.
 Financial Statements and Disclosures
 For the Year Period Ended March 31, 2016
 (Monetary Amounts in RMB Except Specially Noted)

Communication	53,034.15	35,338.34
Internet & web	6,598.00	7,700.00
	31,902.90	1,250.00
Product insurance		
Vehicle fees	20,126.00	58,673.00
Registration fees	3,478.00	5,519.00
Audit	12,264.15	14,264.15
Hospitalization insurance	-	51,571.70
Welfare of staff	14,006.00	10,523.70
Courier & speed post	34,399.80	33,855.00
Utilities	11,655.02	10,565.27
Depreciation	4,993.56	4,628.98
Training	160.00	22,960.00
Dock charge	70,760.43	88,768.88
Freight	36,176.80	124,363.86
Magazine & journals	100.00	-
Warehouse.	43,126.63	56,078.28
Agency service	5,010.00	9,746.00
Testing	(4,810.24)	11,887.60
Repair	31.90	490.00
Fin. Software	-	39,283.03
Decoration of new office	13,999.92	13,999.92
Sample & custom clearance fee	1,373.58	409.12
Information services	11,839.63	5,943.40
Financial advisory fees	-	-
Stamp duty	24,813.00	25,234.00
Others	50.00	12,730.66

17、 Financial expenses

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
Interest income	(2,070.65)	(6,339.83)
Net exchange income	103,097.16	79,585.83
Bank fees	74,340.13	120,915.98
Total	<u>175,366.64</u>	<u>194,161.98</u>

Atul China Ltd.
 Financial Statements and Disclosures
 For the Year Period Ended March 31, 2016
 (Monetary Amounts in RMB Except Specially Noted)

18、 Non-operating income

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
fiscal subsidies	1,138.12	1,390.84

19、 Non-operating expenses

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
Disposal of fixed assets	-	6,656.81
Inventory loss	-	262.21
Total	-	6,919.02

20、 Income tax

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
	-	35,720.98

21、 Net profit

	<u>2015.04-2016.03</u>	<u>2014.04-2015.03</u>
	(483,015.95)	798,552.54

* * *End of the Financial Statements and Disclosures* *