

**REPORT ON  
ATUL USA, INC.  
MARCH 31, 2016**

**TABLE OF CONTENTS**

**ATUL USA, INC.**  
**MARCH 31, 2016**

	<b><u>PAGE</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1-2
<b>FINANCIAL STATEMENTS</b>	
Balance Sheets	3
Statements of Income	4
Statements of Shareholder's Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7-10
<b>SUPPLEMENTARY INFORMATION</b>	
Selling, General and Administrative Expenses	11



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Atul USA, Inc.

We have audited the accompanying financial statements of Atul USA, Inc. (a North Carolina corporation), which comprises the balance sheets as of March 31, 2016 and 2015, and the related statements of income, shareholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atul USA, Inc. as of March 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

Our audits were made for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, on page 11, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

MILLER EAGLE ASSOCIATES CPA PA

*Phyllis A. Chitwood, CPA*

Phyllis A. Chitwood, CPA  
For the Firm

April 9, 2016

**ATUL USA, INC.**  
**BALANCE SHEETS**  
**AS AT MARCH 31, 2016 AND 2015**

<u><b>ASSETS</b></u>	<u>2016</u>	<u>2015</u>
<u><b>Current Assets</b></u>		
Cash	\$ -	\$ -
Accounts receivable	3,822,886	5,294,050
Accounts receivable - affiliate	318,619	489,909
Inventories	1,398,530	946,226
Employee advances	550	-
Total Current Assets	5,540,585	6,730,185
 <u><b>Fixed Assets</b></u>		
Property and equipment - at cost, less accumulated depreciation of \$31,114 and \$26,117	266,484	274,363
 <u><b>Other Assets</b></u>		
Deferred income taxes	1,170	820
Loan costs, less accumulated amortization of \$170 and \$118	1,398	1,450
Deposit	467	467
Total Other Assets	3,035	2,737
<b>TOTAL ASSETS</b>	<b>\$ 5,810,104</b>	<b>\$ 7,007,285</b>
 <u><b>LIABILITIES AND SHAREHOLDER'S EQUITY</b></u>		
<u><b>Current Liabilities</b></u>		
Accounts payable	\$ 349,632	\$ 102,618
Accounts payable - affiliate	2,630,050	4,145,024
Current maturities of long-term debt	11,729	11,242
Income taxes payable	12,350	63,603
Total Current Liabilities	3,003,761	4,322,487
 <u><b>Long-Term Debt</b></u>		
Note payable - bank	165,563	177,292
Total Liabilities	3,169,324	4,499,779
 <u><b>Shareholder's Equity</b></u>		
Common stock	2,000,000	2,000,000
Retained earnings	640,780	507,506
Total Shareholder's Equity	2,640,780	2,507,506
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>\$ 5,810,104</b>	<b>\$ 7,007,285</b>

See accompanying notes and independent auditors' report.

**ATUL USA, INC.**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	2016		2015	
	Amount	% To Net Sales	Amount	% To Net Sales
Net Sales	\$35,321,526	100.00	\$35,001,101	100.00
Cost of Goods Sold	34,831,439	98.61	34,503,233	98.58
Gross Profit	490,087	1.39	497,868	1.42
<u>Operating Expenses</u>				
Selling, General, and Administrative	293,252	0.83	283,278	0.81
Operating Income	196,835	0.56	214,590	0.61
<u>Other (Income) &amp; Expenses</u>				
Other Income	-	-	(2,381)	(0.01)
Financial expense, interest expense	7,795	0.02	8,377	0.02
Merger and acquisition cost	(2,748)	-	15,000	0.05
Total Other (Income) & Expenses	5,047	0.01	20,996	0.06
Income before taxes based on Income	191,788	0.55	193,594	0.55
Provision for income taxes				
Current tax expense	69,100		67,024	
Deferred tax expense	(350)		410	
Prior year (over) accrual	(10,236)		(80)	
	58,514		67,354	
Net Income	\$ 133,274		\$ 126,240	

See accompanying notes and independent auditors' report.

**ATUL USA, INC.**  
**STATEMENTS OF SHAREHOLDER'S EQUITY**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at March 31, 2014	\$ 2,000,000	\$ 381,266	\$ 2,381,266
Net Income	<u>                    </u>	<u>126,240</u>	<u>126,240</u>
Balance at March 31, 2015	2,000,000	507,506	2,507,506
Net Income	<u>                    </u>	<u>133,274</u>	<u>133,274</u>
Balance at March 31, 2016	<u>\$ 2,000,000</u>	<u>\$ 640,780</u>	<u>\$ 2,640,780</u>

See accompanying notes and independent auditors' report.

**ATUL USA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<u>Cash Flows from Operating Activities</u>		
Net income	<u>\$ 133,274</u>	<u>\$ 126,240</u>
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization	52	52
Depreciation	7,879	7,929
Deferred income taxes	(350)	410
Changes in noncash operating assets and liabilities:		
Decrease (Increase) in accounts receivable	1,471,164	(2,465,435)
Decrease (Increase) in accounts receivable - affiliate	171,290	(154,433)
(Increase) decrease in inventories	(452,304)	(66,131)
(Increase) in employee advances	(550)	-
Increase in accounts payable	247,014	75,827
(Decrease) Increase in accounts payable affiliate	(1,514,974)	2,260,390
(Decrease) Increase in income taxes payable	(51,253)	60,173
Total Adjustments	<u>(122,032)</u>	<u>(281,218)</u>
Net cash provided by (used in) operating activities	<u>11,242</u>	<u>(154,978)</u>
<u>Cash Flows from Investing Activities</u>		
Acquisitions of property and equipment	<u>-</u>	<u>(563)</u>
Net cash (used in) investing activities	<u>-</u>	<u>(563)</u>
<u>Cash Flows from Financing Activities</u>		
Payments on long-term debt	<u>(11,242)</u>	<u>(10,660)</u>
Net cash (used in) financing activities	<u>(11,242)</u>	<u>(10,660)</u>
Net (decrease) increase in cash	-	(166,201)
Cash at beginning of year	<u>-</u>	<u>166,201</u>
Cash at End of Year	<u>\$ -</u>	<u>\$ -</u>
Payments of Interest	<u>\$ 7,795</u>	<u>\$ 8,377</u>
Payments of Income Taxes	<u>\$ 110,117</u>	<u>\$ 3,383</u>

See accompanying notes and independent auditors' report.



**ATUL USA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AS AT MARCH 31, 2016**

**Nature of Operations**

Atul USA, Inc. (the "Company"), which is a wholly-owned U.S. subsidiary of Atul Ltd. (a corporation of the country of India), is engaged primarily in the distribution of chemical dyes used mainly in the textile industry. Sales are made primarily in the Southeastern United States.

**Note A – Summary of Significant Accounting Policies**

**Accounts Receivable**

Accounts receivable are recognized at their sales price less any purchase discounts extended at the time of sale. Accounts receivable are past due or delinquent when payment is not received within the credit term extended to the customer, ranging from 30 days to 270 days. The Company does not charge customers late fees or interest on delinquent accounts receivable. The Company's domestic accounts receivable are insured through a provider at a rate of 100%, provided certain conditions are met.

The Company uses the allowance method to account for uncollectible trade receivable balances. Under the allowance method, if needed, an estimate of uncollectible balances is made upon specific account balances that are considered uncollectible. At March 31, 2016 and 2015, there was no allowance balance required. Trade receivables had a balance of \$3,822,886 (2016) and \$5,294,050 (2015).

**Inventories**

Inventories are stated at the lower of cost (average cost) or market.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed by declining balance and straight line method rates based upon the estimated useful lives of machinery and equipment, including software (3-5 years), furniture and fixtures (7 years), automobile (5 years) and building (40 years).

**Income Taxes**

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of change in tax laws and rates on the date of enactment.

**Uncertain Tax Positions**

Management has determined that the Company does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Company's tax returns will not be challenged by the taxing authorities and that the Company will not be subject to additional tax, penalties, and interest as a result of such challenge. The Company's tax returns periods open for audit are March 31, 2013 to March 31, 2015.

**ATUL USA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AS AT MARCH 31, 2016**

**Note A – Summary of Significant Accounting Policies (Continued)**

**Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Concentration of Credit Risk**

The Company maintains demand deposits with a financial institution, the balance of which at time throughout the year exceed the federally insured amount.

**Revenue Recognition**

Revenues are recognized when the goods are delivered and upon title passing to the customer.

**Note B – Income Taxes**

Deferred tax assets consist of the following components as of March 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Uniform capitalization	\$2,680	\$1,050
Depreciation	(1,510)	(230)
Total	<u>\$1,170</u>	<u>\$ 820</u>

Realization of deferred tax assets is dependent upon sufficient taxable income during the period that deductible temporary differences and carry forwards are expected to be available to reduce taxable income. Management believes the Company will utilize the entire amount of deferred tax assets and no valuation allowance is necessary.

**Note C – Commitments**

**Contracted Services**

The Company has an agreement for warehouse and distribution services from a bonded warehouse for storage, receiving and shipment for the company's inventory. These services are provided on a month to month basis and can be terminated at any time by providing thirty days notice.

Total warehousing expense included in cost of goods sold for the years ended March 31, 2016 and 2015 was \$34,636 and \$31,965, respectively.

**ATUL USA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AS AT MARCH 31, 2016**

**Note D – Property and Equipment**

Property and equipment are summarized as follow:

	<u>Balance As At March 31, 2016</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Machinery & equipment	\$ 8,861	\$ 6,818	\$ 2,043
Furniture & fixtures	4,853	1,822	3,029
Building	283,886	22,474	261,412
Total	\$ 297,600	\$ 31,114	\$ 266,484

	<u>Balance As At March 31, 2015</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Machinery & equipment	\$ 8,861	\$ 6,480	\$ 2,381
Furniture & fixtures	4,853	1,380	3,473
Automobile	2,880	2,880	-
Building	283,886	15,377	268,509
Total	\$ 300,480	\$ 26,117	\$ 274,363

Depreciation amounted to \$7,879 and \$7,929 in 2016 and 2015, respectively. Building with a cost of \$283,886 and a book value of \$261,412 is used to secure a note payable with the bank. See Note E.

**Note E – Long-Term Debt**

Long-term debt consists of the following obligation:

Note Payable – Wells Fargo Bank, N.A., payable in monthly installments of \$1,586 plus interest through February 3, 2018, final balloon payment due March 3, 2018, interest at 4.25%, secured by a deed of trust on building.	\$ 177,292
Less: Current portion	(11,729)
Long-term portion	\$ 165,563

Principal maturities of long-term debt are as follows:

<u>Year Ending March 31,</u>	<u>Amount</u>
2017	\$ 12,237
2018	153,326
Total	\$ 165,563

**ATUL USA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AS AT MARCH 31, 2016**

**Note F – Related Parties**

The Company purchases a significant portion of its inventory from its parent company (Atul Ltd.) and from its affiliate Atul China Ltd. and Atul Europe, Ltd. Purchases from its parent company for the years ended March 31, 2016 and 2015 were \$32,747,580 and \$28,501,984, respectively. Purchases from Atul China Ltd. for the years ended March 31, 2016 and 2015 were \$881,721 and \$2,093,974 respectively. Purchases from Atul Europe, Ltd. for the years ended March 31, 2016 and 2015 were \$0 and \$125,160.

The Company sells inventory to its affiliates, Atul Europe, Ltd. and Atul China, Ltd. Sales to Atul Europe, Ltd. for the years ended March 31, 2016 and 2015 were \$56,000 and \$126,732, respectively. Sales to Atul China, Ltd. for the years ended March 31, 2016 and 2015 were \$133,832 and \$12,680.

The Company sells inventory to its parent company, for items purchased from vendors in the United States, for the years ended March 31, 2016 and 2015 of \$944,772 and \$1,298,635, respectively.

	<u>2016</u>	<u>2015</u>
Accounts receivable affiliate consists of the following:		
Atul Ltd.	\$ 222,232	\$ 385,113
Atul China Ltd.	95,201	12,837
Atul Europe Ltd.	<u>1,186</u>	<u>91,959</u>
Total	<u>\$ 318,619</u>	<u>\$ 489,909</u>
Accounts payable affiliate consists of the following:		
Atul Ltd.	\$ 2,614,624	\$ 3,983,243
Atul China Ltd.	14,260	40,341
Atul Europe Ltd.	<u>1,166</u>	<u>121,440</u>
Total	<u>\$ 2,630,050</u>	<u>\$ 4,145,024</u>

**Note G – Concentrations in Sales**

Sales to the company's largest seven customers amounted to approximately \$28,544,179 (79.11%) in 2016 and the largest seven customers of \$27,643,384 (78.98%) in 2015.

**Note H - Subsequent Events**

The Company evaluated the effects subsequent events would have on the financial statements through April 9, 2016, which is the date the financial statements were available for issuance.

## **SUPPLEMENTARY INFORMATION**

**ATUL USA, INC.**  
**SUPPLEMENTARY FINANCIAL INFORMATION**  
**FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	2016	2015
<u>Selling, General and Administrative Expenses</u>		
Salaries and wages	\$ 130,895	\$ 118,792
Payroll taxes and employee benefits	60,061	49,253
Travel and entertainment	16,695	17,467
Professional fees	16,563	14,794
Auditors' fees	14,975	14,800
Repairs and maintenance	447	1,102
Office supplies and postage	7,746	10,230
Insurance	5,819	9,364
Telephone	5,492	5,594
Amortization	52	52
Depreciation	7,879	7,929
Auto	878	1,021
Licenses and fees	7,347	16,895
Dues and subscriptions	79	875
Condo association fees	2,059	2,706
Utilities	2,098	1,787
Bank charges	12,825	10,429
Contributions	50	50
Miscellaneous	1,292	138
Total Selling, General, and Administrative Expenses	\$ 293,252	\$ 283,278

See independent auditors' report.