

**KOHINOOR FOODS USA INC**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Fiscal Years Ended March 31, 2014 and 2013**

**KOHINOOR FOODS USA INC**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Fiscal Years Ended March 31, 2014 and 2013**

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The President  
Kohinoor Foods USA Inc  
40 Northfield Avenue  
Edison, NJ 08837

We have audited the accompanying balance sheets of Kohinoor Foods USA Inc., as of March 31, 2014 and 2013, and the related statements of income, retained earnings, and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kohinoor Foods USA Inc., as of March 31, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

  
Samuel Thayil, CPA

May 24, 2014

**KOHINOOR FOODS USA INC.**  
**Consolidated Balance Sheets**  
**As of March 31, 2014 and 2013**

**ASSETS**

<b>CURRENT ASSETS:</b>	<u>2014</u>	<u>2013</u>
Cash and Bank	\$ 375,412	\$153,582
Accounts Receivables	7,397,173	5,899,594
Inventories	8,174,646	5,676,517
Advances	<u>133,884</u>	<u>56,614</u>
<b>Total current assets</b>	<u>16,081,115</u>	<u>11,786,307</u>
 <b>FIXED ASSETS, AT COST:</b>		
Land	983,054	983,054
Forklift	121,730	121,730
Warehouse racks	117,436	117,436
Freezer	233,109	233,109
Automobiles	277,203	277,203
Software	24,650	24,650
Office furniture	106,078	106,078
Booths	71,402	71,402
Equipment	55,355	55,355
Computer & Printer	66,592	66,592
Less: Accumulated depreciation	<u>(1,027,762)</u>	<u>(957,930)</u>
<b>Net fixed assets</b>	<u>1,028,847</u>	<u>1,098,679</u>
 <b>INTANGIBLE ASSETS:</b>		
Pre-incorporation expense	152,745	152,745
Deferred marketing expense	1,363,990	1,363,990
Less: Accumulated amortization	<u>(1,516,735)</u>	<u>(1,516,735)</u>
<b>Net Intangible Assets</b>	<u>-0-</u>	<u>-0-</u>
 <b>OTHER ASSETS:</b>		
Deferred income taxes (net valuation allowance of \$317,262 as of 03-31-13)	1,735,932	1,735,932
Deposits	<u>117,958</u>	<u>141,140</u>
<b>Total other assets</b>	<u>1,853,890</u>	<u>1,877,072</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 18,963,852</u>	 <u>\$ 14,762,058</u>

➤ See Accompanying Accountants' Report.

**KOHINOOR FOODS USA INC.**  
**Consolidated Balance Sheets**  
**As of March 31, 2014 and 2013**

**LIABILITIES AND STOCKHOLDERS EQUITY**

**CURRENT LIABILITIES:**

	<u>2014</u>	<u>2013</u>
Bank loan – PNB Hong Kong	\$ 5,651,966	\$5,651,966
Accounts Payable	<u>10,805,491</u>	<u>6,620,321</u>
<b>Total Current Liabilities</b>	<b><u>16,457,457</u></b>	<b><u>12,272,287</u></b>

**LONG TERM LIABILITIES:**

Advances – Rich Rice Raisers Factory LLC	1,000,000	1,000,000
Notes Payable- equipment/Auto Leases	<u>-0-</u>	<u>6,566</u>
<b>Total Long-Term Liabilities</b>	<b><u>1,000,000</u></b>	<b><u>1,006,566</u></b>
<b>Total Liabilities</b>	<b><u>\$ 17,457,457</u></b>	<b><u>\$13,278,853</u></b>

**STOCKHOLDERS' EQUITY:**

Capital Stock		
Common Stock, no par, 100,000 shares authorized, 56,000 shares issued	3,500,000	3,500,000
Preferred stock redeemable, stated value \$62.50 per share, 100,000 shares authorized, 80,000 shares issued	5,000,000	5,000,000
Retained earnings balance at beginning of year	(7,016,795)	(6,147,022)
Net Income (loss) for the year	<u>23,190</u>	<u>(869,773)</u>
<b>Total Stockholders' Equity</b>	<b><u>1,506,395</u></b>	<b><u>1,483,205</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$18,963,852</u></b>	<b><u>\$14,762,058</u></b>

>See Accompanying Accountants' Report

**KOHINOOR FOODS USA INC.**

**Consolidated Statements of Income  
For the years ended March 31, 2014 and 2013**

<b>Revenue</b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Sales	<u>\$ 13,452,147</u>	<u>\$11,187,430</u>
<b>Total Revenue</b>	<b><u>\$13,452,147</u></b>	<b><u>\$11,187,430</u></b>
<b>COST OF GOODS SOLD:</b>		
Beginning inventory	5,676,517	5,439,847
Purchases	10,998,603	7,183,487
Warehouse expense	582,534	546,999
Freight inward	1,453,414	1,130,681
Ending inventory	<u>(8,174,645)</u>	<u>(5,676,517)</u>
<b>Total Cost of Goods Sold</b>	<b><u>10,536,423</u></b>	<b><u>8,624,497</u></b>
<b>Gross Profit</b>	<b><u>2,915,724</u></b>	<b><u>2,562,933</u></b>
<b>OPERATING EXPENSES:</b>		
<b>Marketing &amp; Sales Promotion</b>		
Sales promotion	157,334	146,974
Commission	41,392	44,363
Freight Outward	94,380	11,372
General and Administrative Expenses ( Exhibit – B-1)	<u>2,114,686</u>	<u>2,728,450</u>
<b>TOTAL OPERATING EXPENSES:</b>	<b><u>2,407,792</u></b>	<b><u>2,931,159</u></b>
<b>OPERATING INCOME (Loss):</b>	<b><u>507,932</u></b>	<b><u>(368,226)</u></b>
<b>OTHER EXPENSES (Income):</b>		
Settlement Income	(41,720)	( 53,674)
Sublease- Rental Income	(10,420)	-0-
Interest Income	(3,118)	(7,019)
Interest Expense	<u>540,000</u>	<u>562,240</u>
<b>Total Other Expenses (Income)</b>	<b><u>484,742</u></b>	<b><u>501,547</u></b>
<b>NET INCOME ( LOSS) BEFORE TAXES</b>	<b><u>23,190</u></b>	<b><u>(869,773)</u></b>
<b>LESS: PROVISION FOR INCOME TAX BENEFIT</b>	<b>0</b>	<b>0</b>
<b>NET INCOME( LOSS) AFTER TAX</b>	<b><u>\$ 23,190</u></b>	<b><u>\$ (869,773)</u></b>

>See Accompanying Accountants' Report

**KOHINOOR FOODS USA INC.**  
**SCHEDULE FOR OPERATING STATEMENT EXPENSES**  
**For The Years Ended March 31, 2014 and 2013**

<b>GENERAL AND ADMINISTRATIVE EXPENSES:</b>	<b>2014</b>	<b>2013</b>
Salaries	\$ 661,791	\$ 632,063
Payroll taxes	65,169	48,245
Rent	590,562	555,104
Bad debts expense	34,816	217,475
Charge Backs	40,580	33,614
Repairs and Maintenance	46,209	29,940
Depreciation	69,832	94,803
Amortization	-0-	182,894
Telephone	23,160	28,040
Insurance	120,125	112,347
Automobile Expense	115,618	114,538
Meals & Entertainment	15,485	7,980
Office Expense	24,125	12,282
Bank charges	21,635	22,403
Miscellaneous expense	13,237	6,549
Professional fees	26,591	328,872
Lab Test	80,600	85,820
License & permits	2,609	2,925
Travel	60,406	91,430
Property Tax	27,170	30,270
Postage	5,467	8,968
Local Taxes	2,800	14,420
Utilities	59,940	60,903
Sanitation	3,892	3,069
Security	-0-	837
Data Processing	<u>2,867</u>	<u>2,659</u>
Total	<u>\$ 2,114,686</u>	<u>\$2,728,450</u>

>See Accompanying Accountant's Report

**KOHINOOR FOODS USA INC.**

**Consolidated Statements of Cash Flow**

**For The Years Ended March 31, 2014 and 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	<b>2014</b>	<b>2013</b>
Net income (loss)	\$ 23,190	\$ (869,773)
<u>Add noncash charges</u>		
Depreciation, amortization and disposition	69,832	277,697
<u>Decrease (increase) in operating assets:</u>		
Accounts receivable	(1,497,579)	(721,874)
Inventory	(2,498,129)	(236,670)
Advances and Prepaid	(77,270)	11,265
Deposits	23,182	-0-
Increase (decrease) in operating liabilities:		
Accounts payable	4,185,170	1,576,239
Accrued liabilities	-0-	(1,549)
Net cash provided by (used in) operating activities	<u>228,396</u>	<u>35,335</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition/Disposition of fixed assets	-0-	(3,686)
Net cash provided by (used in) investing activities	-0-	(3,686)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease Notes payable banks	(6,566)	(7,720)
Net cash provided by (used in) financing activities	<u>(6,566)</u>	<u>(7,720)</u>
Net increase (decrease) in cash and cash equivalents	221,830	23,929
Cash and cash equivalents at beginning of year	<u>153,582</u>	<u>129,653</u>
Cash and cash equivalents at end of year	<u>\$ 375,412</u>	<u>\$ 153,582</u>

➤ See Accompanying Accountant's Report



**KOHINOOR FOODS USA INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Accrual Basis)**

**For Years Ended March 31, 2014 and 2013**

**Note 1: Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying consolidated financial statements include the accounts of the offices of Kohinoor Foods USA Inc. (the "Company"), with head office in New Jersey, and branch office in Texas. All material inter office transactions and balances have been eliminated in consolidation.

**Nature of Business**

Kohinoor Foods USA Inc (formerly, Satnam Overseas Limited Inc.) was incorporated in 2000 in the state of New Jersey, USA. The name of Satnam Overseas Ltd Inc. was changed to Kohinoor Foods USA Inc. in 2007. The company is a wholesaler of fine rice, Indian spices, and other prepared food items imported mainly from India. The company serves the entire continental United States and Canada. During 2007, Kohinoor Foods USA Inc. (the company) was registered as a foreign corporation to do business in the states of Texas, Illinois, California, and Maryland. The Maryland location was closed in July 2009 and all assets and liabilities were transferred to New Jersey. During fiscal year ended March 31, 2012, management has decided to close the warehouse locations in Illinois and California and consolidate the operations from warehouses in New Jersey and Texas. Inventory from these closed warehouses has been transferred to New Jersey and Texas locations. These financial statements include results of the operation of Kohinoor Foods USA Inc. and its branches.

**Accounting Policies**

The accompanying financial statements are prepared on an accrual basis which is based on accounting principles generally accepted in the United States. Revenue from sales is recognized at the time of product shipment. Expenses are recognized when incurred. Accordingly, certain costs and expenses incurred but unpaid at the end of the fiscal year are recorded as liabilities. The financial records of the company are maintained on a fiscal year basis. These financial statements have been prepared for the twelve month period ending March 31, 2014, to facilitate consolidation with the accounts of the parent company in India, whose fiscal year ends on March 31<sup>st</sup>.

**KOHINOOR FOODS USA INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Accrual Basis)**

**For Years Ended March 31, 2014 and 2013**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**Income Taxes**

Provision has been made in the accompanying financial statements for state or local franchise taxes. The balance sheets reflect a deferred tax asset of \$1,759,178 (net valuation allowance of \$317,262) as of March 31, 2014 due to the deferred income tax benefit as estimated in prior years. Additional deferred income tax benefits for the current fiscal year have not been accrued as management believes the deferred amount reflected is adequate.

**Inventory**

Merchandise inventories are valued at the lower of cost or market. Inventory items consists of bagged rice, spices, and packed food items and include allocated freight and duty charges. Inventory costs, when appropriate, is periodically adjusted to reflect the results of actual physical inventory counts, which generally occur at the fourth fiscal quarter. Inventory losses due to expirations and damages have been adjusted at the inventory count, using estimates based on Company's experience. Inventory is kept at various warehouse locations in New Jersey and Texas.

**Property and Equipment**

The company records property and equipment at cost. These assets are depreciated over their useful lives using straight-line depreciation method. For tax purposes, the Company adopted the Modified Accelerated Cost Recovery System, as required under the Tax Reform Act of 1986, for assets placed in service after December 31, 1986.

Depreciation of furniture and fixtures, and office equipment is computed using the straight-line method based principally on estimated useful lives of seven and five years respectively. Depreciation of computer equipment and software is computed using the straight-line method based on estimated useful life of five and three years respectively.

**KOHINOOR FOODS USA INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Accrual Basis)  
For Years Ended March 31, 2014 and 2013**

**Accounts Receivable**

Balances due are for sale to wholesale customers which have been deemed by management as fully collectible. Amounts are recorded net of allowance for doubtful accounts. Amounts deemed not collectible are written off as bad debts. During the current fiscal year \$ 34,816 and for prior year \$ 217,475 in actual bad debts were written off.

**Cash and Cash Equivalents**

The Company considers as cash and cash equivalents all funds deposited in financial institutions in checking accounts or money market fund accounts. These accounts are maintained in various financial institutions.

**Loans and Credit Facilities**

The Company entered into a loan agreement with Punjab National Bank, Hong Kong, on March 16, 2009, which provides for a cash credit facility of US \$7,000,000 and a letter of credit facility of US \$2,000,000. Amount borrowed under the cash credit facility bears interest based on the prime rate applicable in Hong Kong plus 2%. Amount borrowed under the letter of credit facility will be for a maximum duration of 120 days and service charges would be payable as per bank's schedule of service charges. As of March 31, 2014 approximately \$5,651,966 was borrowed and remained outstanding under the credit facility.

The credit agreement with Punjab National Bank, Hong Kong required the company to convert the loan of \$5,000,000 from the parent company (Kohinoor Foods Limited) to capital. The loan of \$5,000,000 was converted into preferred redeemable stock on November 3, 2009.

**Advances**

An Advance of \$ 1,000,000 was received from Rich Rice Raisers Factory LLC as an advance for future Services and or purchase of goods from Kohinoor Foods USA Inc.. Rich Rice Raisers Factory LLC, operating from Dubai, UAE is a joint- venture company of the parent company in India.

**Related Party Transactions**

The Company purchases majority of the products from its parent company Kohinoor Foods Limited, a company incorporated in India.

**KOHINOOR FOODS USA INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Accrual Basis)  
For Year Ended March 31, 2014 and 2013**

**Deferred Marketing Expenses and Pre-incorporation Expenses**

At the commencement of the US operation, the management decided that the initial expenses for advertising and promotion would be capitalized, and subsequently amortized over a period of five years. Marketing expenses in the post incorporation years built up a substantial amount in this category. As of March 31, 2013, the balance was fully amortized.

**Lease Commitments**

The company rents warehouses and office space under various lease agreements. The company has taken an office/warehouse space at 40 Northfield Ave, Edison, NJ 08837. The lease for this location will expire on August 31, 2015. The minimum annual rent commitments at March 31, 2014 are approximately as follows:

	Minimum Annual Rent
Year Ending March	
2014	\$189,600
2015	<u>\$189,600</u>
Total	\$ 379,200

The lease provides for the company to pay its proportionate share of maintenance, insurance, and taxes in addition to the above minimum rentals. The Company has taken an additional 10,000 sq. ft lease facility in Piscataway, NJ with a monthly rent of \$ 5,500 renewable on yearly basis. Also, Company has moved its operations in Texas to another leased facility in the same city with monthly rent of \$ 6,000. The lease in this new facility is renewable yearly.

**KOHINOOR FOODS USA INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Accrual Basis)  
For Years Ended March 31, 2014 and 2013**

**Changes in Shareholders' Equity**

The changes in shareholders' equity are as follows:

	<b>2014</b>	<b>2013</b>
Capital Stock	\$8,500,000	\$ 8,500,000
Retained earnings as of beginning of period	(7,016,795)	(6,147,022)
Income (Loss) for current fiscal year	<u>23,190</u>	<u>( 869,773)</u>
Total Equity	<u>\$ 1,506,395</u>	<u>\$ 1,483,205</u>