

# KOHINOOR FOODS USA INC

## CONSOLIDATED FINANCIAL STATEMENTS

FISCAL YEARS ENDED MARCH 31, 2016 and 2015

**KOHINOOR FOODS USA INC**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**Fiscal Years Ended March 31, 2016 & 2015**

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## Certified Public Accountants

The President,  
Kohinoor Foods USA Inc.  
285 Durham Ave, Suite 1  
South Plainfield NJ 07080

We have audited the accompanying financial statements of Kohinoor Foods USA Inc. (a New Jersey corporation), which comprise the balance sheet as of March 31, 2016, and the related statements of income, retained earnings, and cash flows for the year 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 audit 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.

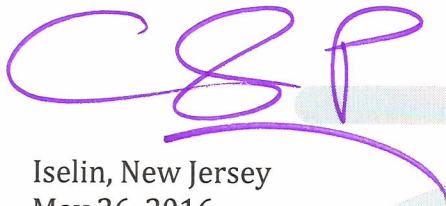
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 Kohinoor Foods USA Inc. as of March 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in purple ink, appearing to be 'CSP', is written over a large, faint, light blue watermark of the letters 'CPAS'.

Iselin, New Jersey  
May 26, 2016

**CPAS Office Address:**  
200 Middlesex Essex Tpk, Suite 207  
Iselin, NJ 08830

**KOHINOOR FOODS USA INC.**  
**Consolidated Balance Sheets**  
**As of March 31, 2016 and 2015**

**ASSETS**

<b>CURRENT ASSETS:</b>	<b>2016</b>	<b>2015</b>
Cash and Bank	60,066	567,678
Accounts Receivables	2,940,690	5,972,937
Inventories	0	4,573,936
Advances	0	835
	<hr/>	<hr/>
Total current assets	<u>3,000,756</u>	<u>11,115,386</u>
<b>FIXED ASSETS, AT COST:</b>		
Land	983,054	983,054
Forklift	0	121,730
Warehouse racks	0	117,436
Freezer	0	233,109
Automobiles	0	270,703
Software	0	24,650
Office furniture	0	106,078
Booths	0	71,402
Equipment	0	55,355
Computer & Printer	0	66,592
Less: Accumulated depreciation	0	(1,063,103)
Net Fixed assets	<u>983,054</u>	<u>987,006</u>
<b>INTANGIBLE ASSETS:</b>		
Pre-incorporation expense	0	152,745
Deferred marketing expense	0	1,363,990
Less: Accumulated amortization	0	(1,516,735)
Net Intangible Assets	<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	4,750	96,368
Total other assets	<u>1,740,682</u>	<u>1,832,300</u>
<b>TOTAL ASSETS</b>	<u><u>5,724,492</u></u>	<u><u>13,934,692</u></u>

See Accompanying Accountants' Report.

**KOHINOOR FOODS USA INC.**  
**Consolidated Balance Sheets**  
**As of March 31, 2016 and 2015**

**LIABILITIES AND STOCKHOLDERS EQUITY**

**CURRENT LIABILITIES:**

	<b>2016</b>	<b>2015</b>
Bank loan - PNB Hong Kong	5,618,046	5,651,966
Accounts Payable	<u>5,476,243</u>	<u>8,779,892</u>
<b>Total Current Liabilities</b>	<u><b>11,094,289</b></u>	<u><b>14,431,858</b></u>

**LONG TERM LIABILITIES:**

Advances - Rich Rice Raisers Factory LLC	<u>0</u>	<u>474,793</u>
<b>Total Long-Term Liabilities</b>	<u><b>0</b></u>	<u><b>474,793</b></u>

<b>Total Liabilities</b>	<u><b>11,094,289</b></u>	<u><b>14,906,651</b></u>
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**STOCKHOLDERS' EQUITY:**

<b>Capital Stock</b>		
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	(9,471,959)	(6,993,605)
Net Income (loss) for the year	<u>(4,397,838)</u>	<u>(2,478,354)</u>
<b>Total Stockholders' Equity</b>	<u><b>(5,369,797)</b></u>	<u><b>(971,959)</b></u>

<b>TOTAL LIABILITY AND STOCKHOLDERS' EQUITY</b>	<u><u><b>5,724,492</b></u></u>	<u><u><b>13,934,692</b></u></u>
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See Accompanying Accountants' Report.

**KOHINOOR FOODS USA INC.**

**Consolidated Statements of Income  
For The Years Ending March 31, 2016 and 2015**

<b>REVENUE</b>	<b>2016</b>	<b>2015</b>
Sales	1,945,761	11,358,446
Total Revenue	1,945,761	11,358,446
<b>COST OF GOODS SOLD:</b>		
Beginning Inventory	4,573,936	8,174,645
Purchases	59,969	5,811,472
Freight inward	108,359	1,006,895
Ending inventory	0	(4,573,936)
<b>Total Cost of Goods Sold</b>	<b>4,742,264</b>	<b>10,419,076</b>
<b>Gross Profit</b>	<b>(2,796,503)</b>	<b>939,370</b>
<b>OPERATING EXPENSES:</b>		
<b>Marketing &amp; Sales Promotion</b>		
Sales promotion	7,926	134,292
Commission	8,330	31,638
Freight Outward	0	107,981
General and Administrative Expenses ( Exhibit - B-1 )	1,428,021	2,616,422
<b>TOTAL OPERATING EXPENSES:</b>	<b>1,444,277</b>	<b>2,890,333</b>
<b>OPERATING INCOME (Loss):</b>	<b>(4,240,780)</b>	<b>(1,950,963)</b>
<b>OTHER EXPENSES (Income)</b>		
Sale of Assets	(56,049)	0
Settlement Income	(49,981)	(11,909)
Sale of Auto	0	(500)
Other Income	(100,726)	0
Interest Income	0	(199)
Interest Expense	363,813	540,000
Total other Expenses (Income)	157,058	527,392
<b>NET INCOME (LOSE) BEFORE TAXES</b>	<b>(4,397,838)</b>	<b>(2,478,355)</b>
<b>LESS: PROVISION FOR INCOME TAX BENEFIT</b>	<b>0</b>	<b>0</b>
<b>NET INCOME (LOSS) AFTER TAX</b>	<b>(4,397,838)</b>	<b>(2,478,355)</b>

See Accompanying Accountants' Report.



**KOHINOOR FOODS USA INC.**  
**SCHEDULE FOR OPERATING STATEMENT EXPENSES**  
**For The Years Ending March 31, 2016 and 2015**

Exhibit B-1

<b>GENERAL AND ADMINISTRATIVE EXPENSES:</b>	<b>2016</b>	<b>2015</b>
Salaries	108,356	699,068
Payroll taxes	17,361	50,231
Rent	51,182	474,169
Bad debts expense	860,558	476,086
Charge Backs	0	57,458
Repairs and Maintenance	2,901	10,065
Depreciation	0	41,841
Telephone	13,997	28,972
Insurance	18,282	108,417
Automobile Expense	24,329	95,480
Meals & Entertainment	4,861	8,942
Office Expense	20,040	18,205
Bank Charges	9,973	23,731
Miscellaneous expense	4,132	848
Professional fees	13,400	43,731
Lab Test	0	14,725
License & permits	0	3,704
Travel	32,698	38,583
Property Tax	0	538
Postage	9,221	8,254
Local Taxes	12,229	10,843
Utilities	28,331	51,872
Sanitation	0	3,699
Warehouse Exps	166,727	535,226
Waste Disposal Exps	28,747	0
Data Processing	696	8,185
Less: Reimbursed by Rich Rice Raisers Factory LLC	0	(196,451)
<b>Total</b>	<u><u>1,428,021</u></u>	<u><u>2,616,422</u></u>

See Accompanying Accountants' Report.



**KOHINOOR FOODS USA INC.**

**Consolidated Statements of Cash Flow**

**For The Years Ending March 31, 2016 and 2015**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	<b>2016</b>	<b>2015</b>
Net Income (loss)	(4,397,838)	(2,478,354)
<u>Add noncash charged</u>		
Depreciation, amortization and disposition		41,841
<u>Decrease (increase) in operating assets:</u>		
Accounts receivable	3,032,247	1,424,236
Inventory	4,573,936	3,600,710
Advances and Prepaid	835	133,049
Fixed Assets		
Deposits	91,618	21,590
Increase (decrease) in operating liabilities:		
Accounts payable	(3,303,649)	(2,025,599)
Advances	(474,793)	(525,207)
Net cash provided by (used in) operating activities	<u>(477,644)</u>	<u>192,266</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition/Disposition of fixed assets	<u>3,952</u>	<u>0</u>
Net cash provided by (used in) investing activities	<u>3,952</u>	<u>0</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Decrease Notes payable banks	(33,920)	0
Net cash provided by (used in) financing activities	<u>(33,920)</u>	<u>0</u>
Net Increase (decrease) in cash and cash equivalents	(507,612)	192,266
Cash and cash equivalents at beginning of year	<u>567,678</u>	<u>375,412</u>
Cash and cash equivalents at end of year	<u>60,066</u>	<u>567,678</u>

See Accompanying Accountants' Report.

## KOHINOOR FOODS USA INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Accrual Basis) For years Ended March 31, 2016 and 2015

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

##### **Basis of Presentation**

The accompanying consolidation financial statements include the accounts of the office of Kohinoor Foods USA Inc. (the "Company") with head office in New Jersey, and branch office in Texas. All material interoffice transactions and balances have 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 wholly owned subsidiary of Kohinoor Foods Limited (KFL) India. 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 State and Canada. During 2007, Kohinoor Foods USA Inc. (the company) was registered as a foreign corporation to do business in the state of Taxes, 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. During the fiscal year ending March 31, 2015, the company closed the warehouse location in Texas. In the fiscal year ending March 31, 2016, the management decided to close remaining warehouse locations in New Jersey.

Management has decided to change the business model of the Kohinoor Foods USA Inc., to reduce the cost of operation, expand market share and improve financial position. The company has appointed a main distributor for the USA. Under the new business model, the Company will function as a marketing office on a commission basis and will not hold any physical inventory.

##### **Accounting Policies**

The accompanying financial statements are prepared on an accrual basis which is based on accounting principles generally accepted in the United State. 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, 2016, to facilitate consolidation with the accounts of the parent company in India, whose fiscal year ends on March 31.

**KOHINOOR FOODS USA INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Accrual Basis)  
For years Ended March 31, 2016 and 2015**

**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, 2016 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**

During the fiscal year ending March 31, 2016, to effectuate the new business model curtailing the cost of operations, the company sold all saleable inventories at the best marketable prices and discarded other unsaleable, damaged, expired, long-lived inventory consisting of bagged rice, spices and packed food items, whose cost included allocated freight and duty charges what resulted in negative gross profit of \$2,796,503.

**Property and Equipment, and Sale of Assets**

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 on 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.

During the fiscal year ending March 31, 2016, the company disposed all assets off mainly consisting furniture, fixtures, shelves & other equipment while closing the warehouse of New Jersey realizing net gain of \$56,049.

**KOHINOOR FOODS USA INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Accrual Basis)  
For years Ended March 31, 2016 and 2015**

**Accounts Receivable**

Balance due are for sale to wholesale customers which have been deemed by management as fully collectible. No allowance for doubtful receivables is made. However, amounts deemed not collectible are written off as bad debts. During the current fiscal year \$ 860,558 and for prior year \$ 476,086 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.

**Loan and Credit Facilities**

The Company entered into a loan agreement with Punjab National Bank (PNB), Hong Kong, on March 16, 2009, which provides for a cash credit facility of US \$7,000,000 and letter of credit facility of US \$2,000,000. 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. Per the revised agreement signed with PNB on May 13, 2015, the Cash Credit facility is changed to \$6,000,000 with interest rate based on the prime rate applicable in Hong Kong what was 5.50%. As of March 31, 2016 approximately \$5,618,046 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.

**Related Party Transactions**

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

**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.

**KOHINOOR FOODS USA INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Accrual Basis)  
For years Ended March 31, 2016 and 2015**

**Lease Commitment**

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 expired on August 31, 2015. Management decided not to renew this lease. In October 2015, the company had ended another warehouse lease having 10,000 sq. ft facility in Piscataway, NJ. Company currently leases office space at the Suite 1 located at 285 Durham Ave, South Plainfield NJ 07080.

**Changes in Shareholders' Equity**

The changes in shareholder's equity are as follows:

	<b>2016</b>	<b>2015</b>
Capital Stock	\$ 8,500,000	\$ 8,500,000
Retained Earnings at the beginning of period	(9,471,959)	(6,993,305)
Income (Loss) for Current Year	<u>(4,397,838)</u>	<u>(2,478,354)</u>
Total Equity	<u>\$ (5,369,797)</u>	<u>\$ (971,659)</u>