



Auditors' Report

SZDT(2019)SZ#562

To Board of Directors of Atul China Ltd.

I. Opinion

We have audited the accompanying financial statements of ATUL CHINA LTD. including balance sheet as of March 31, 2019, and the statement of income, cash flows and changes in equity for the year then ended and other explanatory notes.

In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of ATUL CHINA LTD. as of March 31, 2019 and the results of its operations and cash flows for the year then ended, in accordance with Accounting Standards for Business Enterprises.

II. Basis for opinion

We conducted our audit in accordance with *Accounting Standards for Business Enterprises*. Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of our report. According to the professional ethical code, we are independent of ATUL CHINA LTD. and comply with all other professional ethical requirements. We believe the audit evidences we have obtained are sufficient and appropriate and provide a reasonable basis for our opinion.

III. Management's and Governance's Responsibility for the financial statements

The management of ATUL CHINA LTD. is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises and designing, implementing and maintaining necessary internal control so that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and applying going concern basis of accounting unless the management plans to liquidate ATUL CHINA LTD. to cease operations or have no other realistic alternatives but to do so.

The governance is responsible for overseeing the financial reporting process of ATUL CHINA LTD.

IV. Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with *Accounting Standards for Business Enterprises*, we exercise professional judgment and maintain professional suspicion throughout the audit. We also:

- 1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 2) Obtain an understanding of internal control relevant to the audit 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 internal control.

- 3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- 4) Conclude on the appropriateness of the Management's use of the going concern basis of accounting. Meantime, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ATUL CHINA LTD's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause ATUL CHINA LTD. to cease to continue as a going concern.
- 5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Li Hui, Certified Public Accountant

Dai Yong, Certified Public Accountant

Shanghai ShenZhouDaTong CPAs Co., Ltd.

Shanghai, P.R. China

Date: Apr 4, 2019



Balance Sheet	<u>2019-3-31</u>	<u>2018-3-31</u>
Current assets		
Bank balance and cash	3,817,338.19	2,198,530.10
Trade accounts receivable	26,800,916.11	15,254,363.41
Payment in advance	43,365.10	110,011.45
Other accounts receivable	747,814.76	559,842.40
Prepaid expenses	-	-
Inventories		719,045.29
Fixed assets		
Fixed assets, at cost	92,021.01	92,021.01
Less: Accumulated depreciation	(71,884.66)	(66,353.26)
Fixed assets, net value	20,136.35	25,667.75
Intangible assets	86,178.61	
Long-term prepaid expenses	-	-
	106,314.96	25,667.75
Total assets	<u>31,515,749.12</u>	<u>18,867,460.40</u>
Current liabilities		
Trade accounts payable	26,490,925.62	15,692,637.02
Advance from customers	102,960.00	313,659.29
Other accounts payable	10,844.05	10,844.05
Taxes payable	142,789.87	30,012.16
Other levies payable	-	-
Other current liabilities	-	-
	26,747,519.54	16,047,152.52
Owner's equity		
Paid-in capital	3,393,385.00	3,393,385.00
Surplus reserves	48,267.06	-
Retained earnings	1,326,577.52	(573,077.12)
	4,768,229.58	2,820,307.88
Total liabilities and owner's equity	<u>31,515,749.12</u>	<u>18,867,460.40</u>

Income Statement	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
Sales revenue	140,448,261.28	86,392,943.31
Less: Cost of sales	135,742,891.57	84,220,583.62
Sales tax	37,266.86	9,639.83
Sales profit	<u>4,668,102.85</u>	<u>2,162,719.86</u>
 Add: Other operating profit	 924,828.63	 1,197,830.31
Less: Administrative expenses	3,021,697.45	2,660,137.70
Financial expenses	255,109.39	(3,084.36)
Operating profit/(loss)	<u>2,316,124.64</u>	<u>703,496.83</u>
 Add: Non-operating income	 1,526.77	 4,359.73
Less: Non-operating expenses		-
Profit/(loss) before income tax	<u>2,317,651.41</u>	<u>707,856.56</u>
 Less: Income tax	 369,729.71	
Net profit/(loss)	<u><u>1,947,921.70</u></u>	<u><u>707,856.56</u></u>

Cash Flows Statement	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
Cash flows in operating activities		
Cash received from sales of goods & render of service	135,093,901.66	92,882,869.28
Cash received from Subsidy income	-	-
Cash received from other operating activities	11,775.07	5,220.01
Cash paid for procurements of goods & services	129,226,817.52	89,095,183.17
Cash paid to or for staff	1,667,223.05	1,420,212.00
Cash paid for taxation	1,028,504.69	170,303.81
Cash paid for other operating activities	1,507,992.57	1,647,747.22
Net cash flow in operating activities	<u>1,675,138.90</u>	<u>554,643.09</u>
Cash flows in investing activities		
Net cash received from disposal of capital assets		-
Cash payment for procurement of capital assets	97,560.68	25,469.23
Net cash flow in investing activities	<u>(97,560.68)</u>	<u>(25,469.23)</u>
Cash flows in financing activities		
Net cash flows in financing activities		
Influences of changes in exchange rates on cash	<u>41,229.87</u>	<u>162,289.99</u>
Net increase in cash & cash equivalents	<u>1,618,808.09</u>	<u>691,463.85</u>
Net increase in cash & cash equivalents		
Ending balance of cash & cash equivalents	3,817,338.19	2,198,530.10
Less: Beginning balance of cash & cash equivalents	2,198,530.10	1,507,066.25
Net increase in cash & cash equivalents	<u>1,618,808.09</u>	<u>691,463.85</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”.

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 2018.4-2019.3

Fixed assets and depreciation

Fixed assets refer to durable assets with acquisition cost more than RMB 5,000 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%/16%/6%. 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%.

V. Other Notes to Financial Statements

1、 Bank balance and cash

	<u>2019-3-31</u>	<u>2018-3-31</u>
Petty cash	2,397.69	757.19
Bank deposit	3,814,940.50	2,197,772.91
CNY	3,611,930.93	1,896,759.24
USD	203,009.57	301,013.67
Total	<u>3,817,338.19</u>	<u>2,198,530.10</u>

2、 Trade accounts receivable

	<u>2019-3-31</u>		
	Carrying value	Provision	Net value
	<u>26,800,916.11</u>	-	<u>26,800,916.11</u>

Accounts with significant balance are as follows:

<u>Debtors</u>	<u>Original Currency</u>	<u>Equivalent RMB</u>	<u>Aging</u>
Nanjing Cosmos	USD 3,266,275.50	21,993,466.11	Within 1 year

3、 Other accounts receivable

	<u>2019-3-31</u>		
	Carrying value	Provision	Net value
	<u>747,814.76</u>	-	<u>747,814.76</u>

Accounts with significant balance are as follows:

<u>Debtors</u>	<u>Original Currency</u>	<u>Equivalent RMB</u>	<u>Aging</u>
Atul DIV AR	USD 26,501.94	178,450.81	Within 1 year

4、 Inventories and provision for inventory impairment

	<u>2019-3-31</u>	<u>2018-3-31</u>
Goods in stock-cost	-	719,045.29
Less:Provision for decline in the value of inventories	-	-
Net value	<u>-</u>	<u>719,045.29</u>

5、 Fixed assets

	<u>Office Equipment</u>
At cost	
Balance at 2018-4-1	92,021.01
Addition	-
Disposal/Retirement	-
Balance at 2019-3-31	<u>92,021.01</u>
Accumulated depreciation	
Balance at 2018-4-1	66,353.26
Charge in 2018.04-2019.03	5,531.40
Write-off	-
Balance at 2019-3-31	<u>71,884.66</u>
Net value	
Balance at 2018-4-1	<u>25,667.75</u>
Balance at 2019-3-31	<u>20,136.35</u>

6、 Trade accounts payable

	<u>2019-3-31</u>	
	Original currency	Equivalent RMB
USD	3,934,198.50	26,490,925.62
RMB	-	-
	<u>3,934,198.50</u>	<u>26,490,925.62</u>

Accounts with significant balance are as follows:

<u>Creditors</u>	<u>Original currency</u>	Equivalent RMB	<u>Aging</u>
ATUL LIMITED (Atul-AR)	USD3,246,237.00	21,858,536.85	Within 1 year

7、 Taxes payable

	<u>2019-3-31</u>
Value added tax	(68,927.95)
Individual income tax	5,869.27
Income tax	52,300.95
Urban construction tax	689.28
Stamp duty	12,245.30
	<u>140,032.75</u>

8、 Other levies payable

	<u>2019-3-31</u>
Educational surcharge payable	2,757.12
Riverway maintenance fee	-
	<u>2,757.12</u>

9、 Other accounts payable

	<u>2019-3-31</u>	
	Original currency	Equivalent RMB
RMB	<u>23,089.35</u>	<u>23,089.35</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>2019-3-31</u>
Balance at 2018-4-1	(573,077.12)
Add: Net profit	1,947,921.70
Withdraw surplus reserves	<u>(48,267.06)</u>
Balance at 2019-3-31	<u><u>1,326,577.52</u></u>

12、 Revenue from sales of goods

	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
Revenue from domestic sales	33,846,311.38	15,275,183.83
Revenue from export sales	106,601,949.90	71,117,759.48
	<u>140,448,261.28</u>	<u>86,392,943.31</u>

13、 Cost of sales

	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
Cost of sales	<u>135,742,891.57</u>	<u>84,220,583.62</u>
	<u>135,742,891.57</u>	<u>84,220,583.62</u>

14、 Sales taxes

	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
Riverway maintenance tax	-	-
Urban construction tax	7,068.23	1,606.64
Educational surtax	30,198.63	8,033.19
Total	<u>37,266.86</u>	<u>9,639.83</u>

15、 Other operating revenue

	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
Commission income	<u>924,828.63</u>	<u>1,197,830.31</u>

16、 Administration expenses

	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
	<u>3,021,697.45</u>	<u>2,660,137.70</u>
Including:		
Salary	1,452,302.00	1,420,212.00
Social benefit	21,4921.05	254,625.06
Office supply	12,127.94	15,989.30
Traveling	196,189.00	67,451.96
Transportation	11,461.28	12,030.77
Entertainment	51,303.62	40,334.04
Rent	387,459.07	370,518.14
Communication	42,450.40	64,406.01
Internet & web	14,122.77	8,700.00
Vehicle fees	52,019.00	42,560.00
Registration fees	4,398.00	2,774.00
Audit	19,811.32	12,264.15
Hospitalization insurance	614.50	-
Welfare of staff	13,523.00	13,708.40
Courier & speed post	45,285.08	32,614.26
Utilities	11,329.73	12,280.02
Depreciation	5,531.40	11,870.41
Training	936.70	160.00
Dock charge	211,901.80	74,316.14
Freight	157,946.63	132,744.14
Warehouse.	15,130.63	14,243.10
Agency service	13,618.87	8,305.67
Testing	-	-
Repair	-	660.00
Decoration of new office	-	3,500.38
Sample & custom clearance fee	1,210.27	1,766.21
Information services	6,293.40	9,433.96
Financial advisory fees	20,267.92	5,660.38
Stamp duty	48,160.00	27,009.20
Depreciation of intangible assets	11,382.07	-

17、 Financial expenses

	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
Interest income	(10,248.30)	(7,439.27)
Net exchange income	41,229.87	(162,289.99)
Bank fees	224,127.82	166,644.90
Total	<u>255,109.39</u>	<u>(3,084.36)</u>

18、 Non-operating income

	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
Return of individual income tax fee	<u>1,526.77</u>	<u>4,359.73</u>

19、 Income tax expenses

	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
	<u>369,729.71</u>	<u>-</u>

20、 Net profit

	<u>2018.04-2019.03</u>	<u>2017.04-2018.03</u>
	<u>1,947,921.70</u>	<u>707,856.56</u>

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