

**GRANULES USA, INC.**  
*REVIEW REPORT*  
*April 1, 2017 to March 31, 2018*

Prepared by:

**CHUGH CPAs, LLP**  
1600 Duane Ave,  
Santa Clara, CA 95054

---

CONTENTS	PAGE
<b>INDEPENDENT ACCOUNTANTS' REVIEW REPORT</b>	1-2
<b>FINANCIAL STATEMENTS</b>	
Balance Sheet	3-4
Statement of Income	5
Statement of Changes in Stockholders' Equity	6
Statement of Cash Flows	7
Notes to Financial Statement	8-14
<b>SUPPLEMENTAL INFORMATION</b>	
Schedule A – Cost of Goods Sold	15
Schedule B – Selling, Operating, General and Administrative expenses	16



TAX | ACCOUNTING | AUDIT | CONSULTING

---

1600 DUANE AVENUE, SANTA CLARA, CA 95054 | TEL 408.970.0100 | FAX 408.970.0200 | WWW.CHUGH.NET

---

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

To Board of Directors and Shareholder  
Granules USA, Inc.

We have reviewed the accompanying financial statements of Granules USA, Inc. (a Delaware corporation), which comprise the Balance Sheet as of March 31, 2018, and the related statements of income and stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion, conclusion, nor provide any form of assurance on these 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.

### **Accountants' Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

**Supplementary Information**

The supplementary information included in Schedules A and B is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

*Chugh CPAs LLP*

Chugh CPAs, LLP  
Santa Clara CA  
July 12, 2018

**GRANULES USA, INC**  
**BALANCE SHEET**  
**AS OF MARCH 31, 2018**



---

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 1,309,135
Accounts Receivable (Note 6)	15,606,258
Inventory (Note 3)	9,882,748
Loans & Advances	85,350
Advance Tax, Net of Provision for Income Taxes	6,213
Advances & Prepaid Expenses	58,371

TOTAL CURRENT ASSETS 26,948,075

PROPERTY & EQUIPMENT

Property & Equipment, at cost (Note 4)	253,022
Less: Accumulated Depreciation	(138,406)

PROPERTY & EQUIPMENT, NET 114,616

Technical Know How (Note 5)	4,474
Less: Accumulated Amortization	(4,037)

INTANGIBLE ASSETS, NET 437

OTHER ASSETS

Deposits	37,088
----------	--------

TOTAL OTHER ASSETS 37,088

TOTAL NON CURRENT ASSETS 152,141

TOTAL ASSETS \$ 27,100,217



---

LIABILITIES & STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts Payable	\$ 25,268,722
Accrued Payroll	90,000
Advance from Clients	113,102
Provision for Other Expenses	270,742

TOTAL CURRENT LIABILITIES 25,742,567

LONG TERM LIABILITIES

Deferred Tax Liability ( Note 9)	30,782
----------------------------------	--------

TOTAL LONG TERM LIABILITIES 30,782

TOTAL LIABILITIES 25,773,350

STOCKHOLDERS' EQUITY

Common Stock	70,000
Additional Paid In Capital	180,000
Retained Earnings	1,076,867

TOTAL STOCKHOLDERS' EQUITY 1,326,867

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY \$ 27,100,217

**GRANULES USA, INC**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED MARCH 31, 2018**



---

REVENUE

Sales & Service Revenue, net \$ 62,262,854

Cost of Goods Sold (Schedule A) 57,158,554

GROSS PROFIT

5,104,300

Selling, General & Administrative Expenses (Schedule B) 4,542,714

OPERATING INCOME

561,587

Other Income 42,808

Interest Expenses (599)

INCOME BEFORE INCOME TAX

603,794

Income Tax Expense (Note 9) 263,490

NET INCOME

\$ 340,304

GRANULES USA, INC  
 STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
 FOR THE YEAR ENDED MARCH 31, 2018



	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u># of Shares</u>	<u>Amount</u>	<u>Paid in Capital</u>	<u>Earnings</u>	<u>Stockholders'</u> <u>Equity</u>
BALANCE, MARCH 31, 2017	700,000	70,000	180,000	736,563	986,563
Net Income				340,304	340,304
BALANCE, MARCH 31, 2018	700,000	\$ 70,000	\$ 180,000	\$ 1,076,867	\$ 1,326,867



**GRANULES USA, INC**  
**STATEMENT OF CASH FLOWS**  
**AS OF MARCH 31, 2018**



CASH FLOWS FROM OPERATING ACTIVITIES

Net Income	\$ 340,304
Adjustment to reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	44,016
Bad debts	
Amortization	248
(Increase) decrease in operating Assets	
Accounts Receivable, Net of allowance:	(2,455,412)
Inventory	(2,001,599)
Other Assets	(85,350)
Advances & Prepaid Expenses	(38,448)
Increase (decrease) in operating Liabilities	
Accounts Payable	4,032,004
Accrued Expenses:	(15,000)
Accrued Payroll	51,378
Credit Card Payables	(558)
Advance from clients	113,102
Provision for Taxes	(353,674)
Provision for Other Expenses	255,367
Deferred tax Liability	(12,766)
	<hr/>
Total Cash Provided by Operating Activities	(126,390)

CASH FLOWS FROM FINANCING ACTIVITIES

Loans and Advances	<hr/> (36,825)
Net Cash Used by Financing Activities	(36,825)

NET DECREASE IN CASH	<hr/> (163,217)
CASH, beginning of year	<hr/> 1,472,353
CASH, end of year	<hr/> <hr/> \$ 1,309,135

**GRANULES USA, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

---

**Note 1 - Nature of Business**

Granules USA, Inc (“Granules” and “the Company”) was incorporated on March 5, 2003 in Delaware. Granules is a wholly owned subsidiary of Granules India Limited) “GIL”, a company incorporated in India.

Granules acts as an exclusive front-end value chain for GIL and develops markets for the products manufactured by GIL. The business of GIL comprises of manufacture and sale of pharmaceutical products.

**Note 2 - Summary of Significant Accounting Policies**

*Basis of Accounting*

The Company uses the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements for the period April 1, 2017 to March 31, 2018 are prepared in accordance with the Statements on Standards for Accounting and Review Services, issued by the American Institute of Certified Public Accountants.

*Use of Estimates*

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States 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 revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used in accounting for, among other things, unbilled receivables, and allowances for uncollectible receivables, depreciation and taxes.

*Cash*

Cash consists of cash in bank account.

*Accounts Receivable*

Accounts Receivables are recorded at the invoiced amount. Accounts receivables are uncollateralized customer obligations and are stated at the amount billed. Payments of accounts receivables are allocated to the specific invoices identified on the customer’s remittance advice. The Company extends credit to its customers in the normal course of business. The Company performs ongoing evaluation of its existing receivables and evaluation of periodic ageing of the accounts to estimate allowance for potential credit losses.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided principally on a straight-line method over the estimated useful lives of the assets. Estimated useful lives are as follows:

Computers	3 to 5 years
Equipment	3 to 7 years
Furniture and fixtures	3 to 7 years
Vehicles	5 years
Improvements	15 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss on disposal is reflected in the financial statements. Expenditures for major renewals and betterments that extend the useful life of the property and equipment are capitalized. Expenditures for minor repairs and maintenance are charged to expense as incurred.

Intangible assets

Intangible assets consist of Patents and Trademarks. Intangible assets are carried at cost less accumulated amortization. Amortization is computed over the estimated useful life of the respective assets, generally fifteen to twenty years on a straight-line basis. Estimated useful lives of the intangible assets are 15 years.

Impairment of Long-lived Assets

The Company reviews the long-lived tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable from the estimated future cash flows expected to result from the asset's use and eventual disposition. If such review indicates the carrying amount of an asset is not recoverable, the carrying amount is reduced to its estimated fair value and the reduction is recognized as a loss on asset impairment. Fair value of long-lived tangible and intangible assets is estimated by management based on reasonable and supportable assumptions. No impairment losses were recorded for the year ended March 31, 2018.

Leases

The Company accounts for the lease of its office space as an operating lease. The related rentals are charged to expense based on the lease agreement in the period it is incurred.

Revenue and Cost Recognition

Customers of the Company consist primarily of large pharmaceutical companies. Revenue from product sales is recognized when merchandise is shipped to customers and all the four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the

products has occurred; (iii) the selling price is both fixed and determinable and; (iv) collectability is reasonably probable.

Provisions for sales discount, damaged product returns, exchanges of expired products are established as a reduction of product sales revenue at the time such revenues are recognized. Certain charge backs and rebate programs extended to customers pursuant to the industry standards, are recognized as a reduction from product sales revenue at the time of shipment.

#### Research and development

Research and development costs are expensed when incurred. Expenditure for obtaining regulatory approvals and registration of products is charged to revenue when incurred.

#### Income Taxes

The Company accounts for income taxes in accordance with FASB ASC No. 740 (formerly SFAS No. 109) "Accounting for Income Taxes", which requires an asset and liability approach to financial accounting and reporting of income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

#### Subsequent Events

The Company has evaluated subsequent events through July 11, 2018, which is the date the Company's financial statements were issued and found no material subsequent events having occurred, that requires disclosure.

#### Recent Accounting Pronouncements

In April 2016, the FASB issued ASU No.2016-10, "Revenue from Contracts with Customers" (Topic 606). This update clarifies two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). Management is currently evaluating the new update.

### **Note 3 – Inventories**

Inventories consist mainly of products purchased from GIL, and are stated at cost plus freight charges. As of March 31, 2018, the Inventory is stated at \$ 9,958,747.

**GRANULES USA, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

---

**Note 4 – Property and Equipment**

As of March 31, 2018, property and equipment, net consist of the following:

Automobile	\$ 45,970
Furniture and Fixtures	63,142
Leasehold improvements	26,952
Pharmaceutical equipment	65,309
Office equipment	51,650
Less: Accumulated Depreciation	<u>(138,406)</u>
Net Book value	\$ <u>114,617</u>

Depreciation expense for the year ended March 31, 2018 is totaled at \$44,016.

**Note 5 – Intangibles**

As of March 31, 2018, net Intangibles consist of the following:

Trademarks	\$ 4,474
Less: Accumulated Amortization	<u>(4,037)</u>
Net Book value	\$ <u>437</u>

Amortization expense for the year ended March 31, 2018 totaled \$ 248.

**Note 6 – Concentration of Risk**

Accounts Receivable and Sales

The Company performs ongoing credit evaluations of its customers and maintains allowances for potential uncollectible accounts as deemed necessary. The Company generally does not require collateral to secure its accounts receivable. It estimates credit losses based on management's evaluation of historical experience and current industry trends. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts. As of March 31, 2018, the accounts receivable balance is \$15,606,258. There is no allowances for bad debts as of March 31, 2018.

Losses are written off when determined to be uncollectible. The Company has no bad debts nor has created any provision for the period April 1, 2017 to March 31, 2018.

**GRANULES USA, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018**



The Company's revenues and accounts receivable from its major customers as of March 31, 2018 are as follows:

<u>Clients</u>	Revenue	Accounts Receivable
	<u>% of Total</u>	<u>% of Total</u>
A	32%	11%
B	9%	14%
C	7%	1%

**Note 7 - Related Party Transactions**

The company has entered transactions of purchasing and selling pharmaceutical products from its parent Company Granules India Limited, India and with its related party Granules Pharmaceuticals Inc, USA. Details of the transactions between the company and its related parties for the year ended March 31, 2018 are as follows.

<b>Granules India Limited</b>	<b>Amount</b>
Cost of Products	\$ 57,125,237
Accounts Payable	\$ 24,873,050
<b>Granules Pharmaceuticals Inc</b>	<b>Amount</b>
Sales	\$ 6,500
Accounts receivable	\$ 3,320

There were two invoices of \$1,100 and \$2,220 each raised by the Company which were in transit as of March 31, 2018.

**Note 8 – Commitments under Operating Lease**

The Company leases the premises under the long term operating lease arrangement. The Company entered into a lease for the new premises on November 1, 2014 for a lease period of 88 months. During the year, the rent expense for office space was \$79,133.

The future basic lease payments under this operating lease agreement are as follows:

Period	Annual Rate
November 2017- October 2018	\$ 79,012
November 2018- October 2019	\$ 80,625
November 2019- October 2020	\$ 82,238

**GRANULES USA, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018**



The Company had entered into guest house lease agreement with 605 West 42<sup>nd</sup> Owner LLC on May 27, 2016 for a lease period of October 2016 to September 30, 2017 with a monthly rent of \$6,700. During the year, the rent expense for apartment lease was \$40,800.

**Note 9 - Income Taxes**

The Company accounts for income taxes under the provisions of FASB ASC 740, “Accounting for Income Taxes”. Under ASC 740, deferred taxes are required to be classified based on the financial statement classification of the related assets and liabilities which give rise to temporary differences. Deferred taxes result from temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities.

All of the income before tax as shown in the statement of income for the period ended March 31, 2018 is derived in the United States.

The components of tax expense relating to earnings from operations are as follows:

		<b>03/31/2018</b>
<b><u>State</u></b>		
Current	\$ 66,901	
Deferred	\$ (1,899)	\$ 65,002
<b><u>Federal</u></b>		
Current	\$ 209,355	
Deferred	\$ (10,867)	\$ 198,488
<b>Total Taxes</b>		<b>\$ 263,490</b>

The components of deferred tax assets as on March 31, 2018 are as follows:

		<b>03/31/2018</b>
<b><u>Deferred Tax Liability:</u></b>		
<b><u>Depreciation</u></b>		
State	\$ 4,578	
Federal	\$ 26,204	\$ 30,782
<b>Net Deferred Tax Liability</b>		<b>\$ 30,782</b>

**GRANULES USA, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018**

---

**Note 10 – Stockholder’s Equity**

The Company had an authorized capital of 2,500,000 shares of its common stock, at \$0.10 par value per share at the beginning of the year. The Company had 700,000 common stocks issued and outstanding as of March 31, 2018. There were no shares issued during the year ended March 31, 2018.

**Note 11 – Contingencies**

There are no pending legal actions, including arbitrations, class actions and other litigation, arising in connection with the Company’s activities as a pharmaceuticals marketing company. Legal reserves are established in accordance with FASB ASC 450 (formerly known as SFAS No. 5), “*Accounting for Contingencies*”. Once established, reserves are adjusted when there is more information available or when an event occurs requiring a change. There are no legal reserves in the statement of financial condition as of March 31, 2018.



**GRANULES USA, INC**  
**SCHEDULE A**  
**COST OF GOODS SOLD**  
**FOR THE YEAR ENDED MARCH 31, 201**



---

Beginning Inventory	\$	7,881,149
Cost of Material and Consumables		58,535,998
Freight		511,478
Freight:Container PU		93,106
Freight:Delivery		19,570
Less: Ending Inventory		<u>(9,882,748)</u>
<b>TOTAL COST OF GOODS SOLD</b>	<b>\$</b>	<b><u>57,158,554</u></b>

**GRANULES USA, INC**  
**SCHEDULE B**



**SELLING, OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES**  
**FOR THE YEAR ENDED MARCH 31, 2011**

---

Advertisement	\$	271,768
Amortization		248
Bank Service Charges		5,349
Commission		52,777
Depreciation Expense		44,016
Dues & Subscription		37,228
Employees Benefits		31,861
Exhibitions & Tradeshows		71,860
Insurance		396,863
Interest		5,529
Legal & Professional Expenses		10,107
Maintenance		8,164
Office Expenses		26,159
Consulting Services		384,661
Payroll Expenses		2,249,746
Postage & Delivery		26,689
Recruitment charges		91,752
Rent		119,933
Selling & Distribution - Material Storage		378,741
Staff Welfare		5,911
Supplies		335
Taxes - Payroll		151,679
Telephone		20,014
Travel Expenses		151,323
<b>TOTAL SELLING, OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>\$</b>	<b>4,542,714</b>

---

---