Pidilite USA, Inc.

Financial Statements
March 31, 2017 and March 31, 2016

KNAV P.A.
Certified Public Accountants
One Lakeside Commons, Suite 850,
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Independent Auditor's Report

Board of Directors
Pidilite USA, Inc.

We have audited the accompanying financial statements of Pidilite USA, Inc. ('the Company') which comprise the balance sheets as of March 31, 2017, and March 31, 2016 and the related statements of income, stockholders' equity, and cash flows for the years then ended and the related notes to financial statements. 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 audit.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. 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 organization'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 organization'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 the Company as of March 31, 2017 and March 31, 2016 and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

KNAV P.A.
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Other matter

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary financial information for March 31, 2017 and March 31, 2016 is presented for the purpose of additional analysis and is not a required part of the financial statements. This supplemental schedule is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

KNAV P.A.

Atlanta, Georgia
May 03, 2017

Financial Statements

Balance sheets

(All amounts in United States Dollars, unless otherwise stated)

	As at March 31, 2017	As at March 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	260,218	189,103
Accounts receivable, net of allowances	6,144,278	8,346,462
Inventories, including goods-in-transit	8,928,354	8,368,254
Prepaid expenses	368,272	247,171
Other current assets	1,116,368	931,640
Investments *(Note C)*	862,562	-
Deferred tax assets	1,083,856	857,469
Total current assets	**18,763,908**	**18,940,099**
Investments *(Note C)*	-	795,123
Property and equipment, net	1,245,795	967,074
Goodwill and other intangibles, net	1,751,747	1,952,684
Total assets	**21,761,450**	**22,654,980**
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Line of credit	2,732,034	2,363,473
Accounts payable	2,177,273	3,690,886
Other current liabilities	1,943,827	1,867,289
Total current liabilities	**6,853,134**	**7,921,648**
Deferred tax liability	416,564	375,956
Total liabilities	**7,269,698**	**8,297,604**
Stockholder's equity		
Common stock	14,780,000	14,780,000
Accumulated deficit	(288,248)	(422,624)
Total stockholder's equity	**14,491,752**	**14,357,376**
Total liabilities and stockholder's equity	**21,761,450**	**22,654,980**

(The accompanying notes are an integral part of these financial statements)

Statements of income

(All amounts in United States Dollars, unless otherwise stated)

	For the year ended	
	March 31, 2017	**March 31, 2016**
Revenues, net of allowances and rebates	37,098,300	37,881,779
Less: cost of revenues	22,837,205	24,341,611
Gross profit	**14,261,095**	**13,540,168**
Operating costs and expenses		
Selling, general and administrative	14,043,015	10,431,617
Depreciation and amortization	474,333	461,819
Interest expense	84,160	132,623
Total costs and expenses	**14,601,508**	**11,026,059**
Operating (loss) income	**(340,413)**	**2,514,109**
Other income	574,660	141,387
Income before taxes	**234,247**	**2,655,496**
Current tax expense	285,650	257,348
Deferred tax benefit	(185,779)	(78,837)
Net income	**134,376**	**2,476,985**

(The accompanying notes are an integral part of these financial statements)

Statement of stockholder's equity

(All amounts are stated in USD, except no of shares or unless otherwise stated)

	Common stock					
	Authorized		Issued and outstanding			
Particulars	**Shares**	**Value in US$**	**Shares**	**Value in US$**	**Accumulated deficit**	**Total stockholder's equity**
Balance as on April 01, 2015	27,000,000	27,000,000	14,780,000	14,780,000	(2,899,609)	11,880,391
Net income for the year	-	-	-	-	2,476,985	2,476,985
Balance as on March 31, 2016	**27,000,000**	**27,000,000**	**14,780,000**	**14,780,000**	**(422,624)**	**14,357,376**
Balance as at April 01, 2016	27,000,000	27,000,000	14,780,000	14,780,000	(422,624)	14,357,376
Net income for the year	-	-	-	-	134,376	134,376
Balance as on March 31, 2017	**27,000,000**	**27,000,000**	**14,780,000**	**14,780,000**	**(288,248)**	**14,491,752**

(The accompanying notes are an integral part of these financial statements)

Statements of cash flow

(All amounts in United States Dollars unless otherwise stated)

	For the year ended March 31, 2017	For the year ended March 31, 2016
Cash flow from operating activities		
Net income	134,376	2,476,985
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	474,333	461,819
Interest income	(67,439)	(22,562)
Current tax	285,651	257,348
Deferred tax	(185,779)	(78,837)
Allowance for bad debts	185,488	130,765
Allowance for slow moving inventory (net of inventory written off)	198,498	646,832
Changes in assets and liabilities		
Accounts receivable	2,016,696	(2,001,934)
Inventory including goods-in-transit	(758,598)	166,125
Prepaid expenses and other current assets	(305,829)	(508,718)
Accounts payable	(1,513,613)	1,087,633
Other current liabilities	(209,113)	(199,310)
Net cash provided by operating activities	**254,671**	**2,416,146**
Cash flow from investing activities		
Purchase of property and equipment	(552,117)	(310,038)
Net cash used in investing activities	**(552,117)**	**(310,038)**
Cash flow from financing activities		
Short term line of credit	368,561	(2,686,527)
Net cash provided by (used in) financing activities	**368,561**	**(2,686,527)**
Net increase (decrease) in cash and cash equivalents	71,115	(580,419)
Cash and cash equivalents at the beginning of the year	189,103	769,522
Cash and cash equivalents at the end of the year	**260,218**	**189,103**
Supplemental cash flow information		
Interest paid	79,057	111,340
Income taxes paid	362,414	418,070

(The accompanying notes are an integral part of these financial statements)

Notes to financial statements

(All amounts in United States Dollars, unless otherwise stated)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

1. *Business description*

Pidilite USA, Inc (the Company") was incorporated in Delaware on May 12, 2006. On June 12, 2006 ("the Sargent acquisition date"), the Company acquired certain assets and assumed liabilities comprising the business of Sargent Art, LLC. On June 20, 2006 ("the Cyclo acquisition date"), the Company acquired certain assets and assumed liabilities comprising the business of Cyclo Industries, LLC. On April 22, 2008 ("the Power Poxy acquisition date"), the Company acquired certain assets and assumed liabilities comprising the business of Poxy Plus, a division of BMG Group.

The Company conducts business through its divisions Sargent Art and Cyclo. Sargent Art division manufactures and trades in art materials and is located in Hazleton, Pennsylvania. The Cyclo division trades in car care products, and is located in Jupiter, Florida. The Company closed the operations of the Power Poxy division in March 2013.

Pidilite USA, Inc is a wholly owned subsidiary of Pidilite Industries Limited, a public listed company in India.

2. *Financial statements*

a) *Basis of preparation*

The accompanying financial statements are prepared under the historical cost convention on accrual basis of accounting in accordance with the accounting and reporting requirements of generally accepted accounting principles in the United States of America ('US GAAP') to reflect the financial position, results of operations, stockholder's equity and cash flows.

All amounts are stated in US dollars, except as otherwise specified.

The current year financial statements are for the fiscal year April 1, 2016 to March 31, 2017. The previous year financial statements are for fiscal year April 1, 2015 to March 31, 2016. The amounts in the notes to the financial statements for the previous year ending March 31, 2016 are given in brackets. Certain reclassifications, regroupings and reworking have been made in the financial statements of prior periods to conform to the classifications used in the current year. These changes had no impact on previously reported net income or stockholder's equity.

b) *Estimates and assumptions*

In preparing the financial statements in conformity with US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. The important estimates made by the Company in preparing these financial statements include those on provision for product recall expenses, allowance for doubtful accounts receivable, inventory reserve, useful life of property and equipment, the valuation and impairment of goodwill and other intangibles, the provision for rebates and allowances and realization of deferred taxes. Actual results could differ from those estimates.

3. *Cash and cash equivalents*

The Company considers all highly liquid investments and deposits with an original maturity of ninety days or less to be cash and cash equivalents. Cash and cash equivalents comprise cash on hand and balance with banks. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

4. *Revenue recognition*

Revenue from sale of goods is recognized when significant risks and rewards in respect of ownership of the products are transferred to the customer and when the following criteria are met:

- Persuasive evidence of an arrangement exists;
- The price to the buyer is fixed and determinable;
- Delivery has occurred and/or services have been rendered; and
- Collectability of the sales price is reasonably assured.

Revenue from sale of goods is shown net of provisions for estimated sales returns, consumer and trade promotions, rebates, cash discounts, promotional reserve and other deductions. Provisions for rebates to customers are provided in the same period that the sales are recorded. The Company accounts for free products offered to customers as cost of sales, based on the guidance provided in Accounting Standard Codification ("ASC") 605-50, Vendor's Accounting for Consideration Given to a Customer.

5. *Shipping and handling costs*

The Company classifies shipping and handling costs as selling expenses. Amounts billed to a customer in sales transaction related to shipping and handling are credited to shipping and handling costs.

6. *Allowance for doubtful accounts*

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of their customers to make required payments. Management analyzes accounts receivable and the composition of the accounts receivable aging, historical bad debts, current economic trends and customer credit worthiness when evaluating the adequacy of the allowance for doubtful accounts. Bad debt expense is included in general expenses in the statement of income.

7. *Investments*

Investments are carried at cost and comprise of investment in debt securities.

8. Goodwill and intangible assets

In accordance with ASC 350, Goodwill and Other Intangible Assets, all assets and liabilities of the acquired business including goodwill are assigned to the reporting units. The Company does not amortize goodwill but instead tests goodwill for impairment at least annually, using a two-step impairment process. The fair value of the reporting unit is first compared to its carrying value. The fair value of reporting units is determined using the income approach based on measurement techniques such as discounted cash flow analysis. If the fair value of the reporting unit exceeds the carrying value of the net assets to that unit, goodwill is not impaired. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the implied fair value of the reporting unit's goodwill is compared with the carrying value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then an impairment loss equal to the difference is recorded.

Intangible assets acquired individually, with a group of other assets or in a business combination are carried at cost less accumulated amortization. The intangible assets are amortized over their estimated useful lives in proportion to the economic benefits consumed in each period. The estimated useful lives of the intangible assets are as follows:

Marketing-related intangibles	15 years
Software licenses	5 years

Payments made for non-compete covenants in a business combination are written off during the non- compete period, which is for 5 years.

9. Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using weighted-average method for raw materials and packing materials, work in process, manufactured finished goods and the traded finished goods of art materials and adhesive segment and also to determine cost of the traded finished goods of car care products inventories. The Company provides an allowance for slow moving inventory based on a specific identification method considering the ageing of the inventory and the current market conditions.

10. Income taxes

The Company accounts for deferred taxes under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of comprehensive income in the period of change. Based on management's judgment, the measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which it is more likely than not that some portion or all of such benefits will not be realized.

The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company recognizes interest and penalties related to uncertain tax positions within the provision for income taxes.

11. *Property and equipment*

Property and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is provided over the estimated useful life of the assets using the straight-line method. Expenditures for maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the cost of the asset and related depreciation are eliminated from the financial records. Any gain or loss on disposition is credited or charged to income.

The estimated useful lives of assets are as follows:

Leasehold improvements	4-5 years
Machinery and equipment	7 years
Office furniture and equipment	3-5 years
Vehicles	5 years

12. *Commitments and contingencies*

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	As at	
Particulars	**March 31, 2017**	**March 31, 2016**
Petty cash	265	393
Checking accounts	257,695	186,451
Payroll accounts	2,259	2,259
Total	**260,218**	**189,103**

Cash balances on checking accounts and payroll accounts with the bank are insured by the Federal Deposit Insurance Corporation up to an aggregate of $ 250,000 (March 31, 2016: $ 250,000) per depositor at each financial institution, and the Company's non-interest bearing cash balances may exceed federal insured limits. As on the balance sheet date the company has $ Nil cash at risk (March 31, 2016: $ Nil).

NOTE C – INVESTMENT

On September 29, 2014 the Company invested in convertible promissory notes of Optmed Inc. for an amount of $ 750,000. The conversion of the promissory notes is subject to various covenants. The conversion feature also includes an option to convert at the sole discretion of the Company upon certain future event. Management has considered and valued this investment as a 'debt instrument' and believes that the valuation of the option can be done only after the occurrence of the specific future event. Interest of $ 67,439 (March 31, 2016: $ 22,562) has been accrued on the promissory notes based on the terms of the notes.

NOTE D – ACCOUNTS RECEIVABLE

The accounts receivable as at March 31, 2017 are stated net of rebates, allowances for sales return and allowance for doubtful accounts. Accounts receivables as at March 31, 2017 of $ 6,144,278 (March 31, 2016: $ 8,346,462) represent dues from customers of the Company, representing amounts receivable on product sales. The Company maintains an allowance for doubtful accounts and returns on all accounts receivables, based on present and prospective financial condition of the customer and ageing of accounts receivables after considering historical experience and the current economic environment. The accounts receivable balances as at March 31, 2017 comprises of dues from related parties of $ 231,242 (March 31, 2016: $ 29,098).

All our receivables are pledged as security for line of credit with Citibank.

The movement in allowance for doubtful accounts during the year was as follows: -

	Year ended	
Particulars	**March 31, 2017**	**March 31, 2016**
Balance at the beginning of the year	513,191	578,643
Add: Provision for the year (net of reversal)	185,488	130,765
Less: Bad debts of related party w/off	-	(190,868)
Less : Bad debts written off/back	7,003	(5,349)
Balance at the end of the year	**705,682**	**513,191**

At the end of fiscal year 2013 a major customer of the Sargent Art division filed for Chapter 11 bankruptcy protection. The Company filed its priority claim of $ 37,608 and non-priority claim of $ 448,348 with the Bankruptcy Court. Based on the Reorganization Plan ("Plan") approved by the Court, the Company received the full amount of its priority claim. With regard to the non-priority claim the Plan provided different options to the Company.

The Company accepted the option to provide the customer agreed upon customary trade terms (same terms as were given pre-petition) till September 30, 2014. The Company may receive 45% of the allowed non-priority claim plus interest at 10% per annum accrued quarterly and payable in the Financial Year 2020-21. The Company estimates the realization under this option would be approximately $ 372,121 in FY 2020-21. The Company believes that it has adequately provided for the account receivable from the customer.

NOTE E – INVENTORIES

Major classes of inventory are as follows:

Particulars	As at March 31, 2017	As at March 31, 2016
Raw materials and packing materials	1,629,645	1,629,100
Work in process	139,996	152,451
Manufactured finished goods	1,242,095	1,355,053
Goods in transit	373,129	1,204,348
Traded finished goods:		
- Art materials	4,274,138	2,258,549
- Car care products	2,247,185	2,548,089
Less: Allowance for slow moving inventory	(977,834)	(779,336)
Total	**8,928,354**	**8,368,254**

The movement in allowance for inventory during the year was as follows: -

Particulars	Year ended March 31, 2017	Year ended March 31, 2016
Balance at the beginning of the year	779,336	132,504
Add: Reserve created during the year	416,540	1,006,637
Less: Reserve write back	(4,526)	-
Less: Inventory written off during the year	(213,516)	(359,805)
Balance at the end of the year	**977,834**	**779,336**

All the inventories are pledged as security against the line of credit with Citibank.

NOTE F – PROPERTY AND EQUIPMENT, NET

Property and equipment comprise the following:

Particulars	As at March 31, 2017	As at March 31, 2016
Leasehold improvement	299,285	297,135
Machinery and equipment	3,196,720	2,686,589
Office furniture and equipment	727,596	687,760
Vehicles	23,465	23,465
	4,247,066	**3,694,949**
Less: Accumulated depreciation	(3,001,271)	(2,727,875)
Property and equipment, net	**1,245,795**	**967,074**

During the current year, purchases of $ 294,269 (March 31, 2016: $ Nil) were made by the Research and development division of Pidilite USA, Inc. These assets have not been depreciated during the current year as they were not put to use.

The carrying amounts of all tangible/intangible assets are pledged as security against the line of credit with Citibank.

Depreciation expense for the year is $ 273,396 (March 31, 2016: $ 258,303).

NOTE G – GOODWILL AND OTHER INTANGIBLES, NET

During the year ended March 31, 2009 the Company completed the Power Poxy business acquisition. The business acquisition of Power Poxy resulted in goodwill of $ 537,210.

During the period ended March 31, 2007 the Company completed the Sargent Art LLC and the Cyclo Industries LLC business acquisitions. The business acquisitions of Sargent Art LLC and Cyclo Industries LLC resulted in goodwill of $ 70,359 and $ 779,944, respectively. The goodwill on acquisition of Cyclo Industries LLC increased by $ 77,532 to $ 857,476 due to certain post acquisition adjustments in the purchase consideration. Other intangibles, which were acquired in the business combinations, included:

Particulars	Power Poxy	Sargent Art	Cyclo
Trademarks	$ 139,095	$ 770,281	$ 2,199,216
Non-compete	-	$ 50,000	$ 10,000

The Company amortized the non-compete covenants over the term of the non-compete, which was five years.

The Company has estimated the useful life of the trademarks to be 15 years. The Company capitalizes the registration and renewal costs incurred on the trademarks and the estimated useful life of such costs have been estimated at 5 years by the Company. The Company recorded amortization expense of $ 194,514 (March 31, 2016: $ 195,047) with regard to the trademarks. The Company has written off the unamortized trademark costs of the Power Poxy division.

Goodwill and other intangibles comprise the following:

	As at March 31, 2017		
Particulars	Gross carrying amount	Accumulated amortization	Net carrying amount
Trademark*	2,969,497	(2,150,859)	818,638
Goodwill	927,834	-	927,834
Software licenses	357,949	(352,674)	5,275
Non-compete	60,000	(60,000)	-
Total	**4,315,280**	**2,563,533**	**1,715,747**

	As at March 31, 2016		
Particulars	Gross carrying amount	Accumulated amortization	Net carrying amount
Trademark*	2,969,497	(1,956,345)	1,013,152
Goodwill	927,834	-	927,834
Software licenses	357,949	(346,251)	11,698
Non-compete	60,000	(60,000)	-
Total	**4,315,280**	**2,362,596**	**1,952,684**

*The gross amount of trademarks includes registration and renewal costs of $ 51,787.

Intangible amortization expense for the year is $ 200,937 (March 31, 2016: $ 203,516). The Company's estimate of annual amortization expense for the next five years for the intangible assets is as follows:

Year ending March 31,	Amount
2018	199,789
2019	194,514
2020	194,514
2021	194,514
2022	40,582
Total	**823,913**

NOTE H – LINE OF CREDIT

The Company has a working capital facility line of credit with Citibank with a maximum permissible limit of $ 6,000,000 (March 31, 2016: $ 6,000,000). As at March 31, 2017 the Company has made withdrawals to the tune of $ 2,732,034 (March 31, 2016: $ 2,363,473). Interest on the line of credit is payable at LIBOR plus 2.25% per annum, calculated at monthly intervals. The weighted average rate of interest for the year ended March 31, 2017 was 3.1% per annum (3.0% per annum). As of March 31, 2017, the applicable rate of interest on the outstanding line of credit was 2.5% per annum (2.5% per annum).

The line of credit to the extent of $ Nil (March 31, 2016: $ 2,000,000) is guaranteed by Pidilite Industries Limited.

The line of credit to the extent of $ 6,000,000 is secured against all receivables, inventory and other assets. Total interest expense on the line of credit for the year ended March 31, 2017 is $ 79,057 (March 31, 2016: $ 111,340). Interest is payable on a quarterly basis and the line of credit is repayable on demand.

NOTE I – OTHER CURRENT LIABILITIES

Major components of other current liabilities are as follows:

	As at	
Particulars	March 31, 2017	March 31, 2016
Accrued expenses	697,519	730,252
Accrued salaries	51,775	74,972
Advance from customers	569,920	122,910
Payable (receivable) to\ from associate companies	155,208	(388,000)
Bonus payable	78,000	1,123,126
Accrued vacation pay	54,108	54,385
Accrued interest	5,763	19,245
Accrued legal expenses	50,771	38,975
Provision for taxes	280,763	91,424
Total	**1,943,827**	**1,867,289**

NOTE J – SHIPPING AND HANDLING COST

The amount of shipping and handling costs for the year ended March 31, 2017 were $ 2,940,575 (March 31, 2016: $ 2,614,557).

NOTE K – ADVERTISING AND SALES PROMOTION COST

During the year ended March 31, 2017, the Company incurred $ 1,720,279 (March 31, 2016: $ 1,736,699) on non-response advertising and sales promotions.

NOTE L – OTHER INCOME

Other income comprises of:

Particulars	For the year ended March 31, 2017	For the year ended March 31, 2016
Royalty income	-	61,750
Rebate from customers	49,870	36,237
Research and development fees	452,826	-
Interest on Optmed investment	67,438	22,562
Other	4,526	20,838
Total	**574,660**	**141,387**

NOTE M – INCOME TAXES

The provision for income tax expense (benefit) is as follows:

Particulars	For the year ended March 31, 2017	For the year ended March 31, 2016
State		
Current	(14,892)	78,531
Deferred	(31,791)	(118,773)
Federal		
Current	300,542	178,817
Deferred	(153,988)	39,936
Total	**99,871**	**178,511**

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes are as follows:

Particulars	For the year ended March 31, 2017	For the year ended March 31, 2016
Income tax at federal rate	49,562	906,352
State tax, net of federal effect	(51,690)	(67,659)
Return to provision	81,442	66,106
Permanent differences	20,557	(23,437)
Change in valuation allowance	-	(629,700)
Change in net operating losses	-	(54,140)
AMT tax credit	-	(19,011)
Total	**99,871**	**178,511**

The following is the summary of items giving rise to deferred tax assets and liabilities:

	For the year ended	
	March 31, 2017	**March 31, 2016**
Current deferred tax asset		
Accounts receivable	266,441	186,483
Inventory & Inventory reserve	756,627	623,383
Accrued bonus	29,450	46,876
Accrued expenses / corporate guarantee fees	31,338	727
Current deferred tax asset	**1,083,856**	**857,469**
Less: Valuation allowance	-	-
Current deferred tax asset, net	**1,083,856**	**857,469**
Non-current deferred tax asset		
Net operating losses	128,597	127,633
Intangibles other than goodwill	14,044	16,225
Non-current deferred tax asset	**142,642**	**143,858**
Less: Valuation allowance	-	-
Non-current deferred tax asset	**142,642**	**143,858**
Non-current deferred tax liability		
Property, plant and equipment	(310,273)	(302,711)
Goodwill	(248,933)	(217,103)
Non-current deferred tax liability	**(559,206)**	**(519,814)**
Non-current deferred tax liability, net	**(416,564)**	**(375,956)**

In assessing the realization of deferred tax assets, the likelihood of whether it is more likely than not that some portion or all of the deferred tax assets will not be realized must be considered. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which temporary differences become deductible.

Management considers the projected future taxable income and tax planning strategies in making this assessment.

The Company has recognized deferred tax liability of $ 248,933 (March 31, 2016: $ 217,103) on account of temporary differences arising out of goodwill amortization for tax purposes. Such deferred tax liability may not be offset against deferred tax assets and has been recognized while preparing the financial statements.

The Company recognizes the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The adoption of this standard had no material effect on the Company's financial position, results of operation or cash flows.

The tax years of 2013 through 2015 remain subject to examination by the taxing authorities.

NOTE N – RELATED PARTY TRANSACTIONS

A. The following are the related parties with whom transactions have taken place during the year with the Company having closing balances:

a. Pidilite Industries Limited – Parent Company
b. Pidilite International Pte. Limited – Associate Company

B. Summary of transactions with related parties are as follows:

Particulars	Pidilite Industries Limited US$	Pidilite International Pte. Ltd US$	Total US$
Transactions for the year ended March 31, 2017			
Purchases	689,289	-	**689,289**
Royalty expense	-	257,696	**257,696**
Legal fees paid	-	29,200	**29,200**
Service fees	452,826	-	**452,826**
Expense reimbursement	259,064	-	**259,064**
Allocation fees	2,667	-	**2,667**
Balances as at March 31, 2017			
Accounts receivable	231,242	-	**231,242**
Accounts payable	177,139	49,143	**226,282**
Other payable	130,937	24,271	**155,208**
Transactions for the year ended March 31, 2016			
Sales	8,099	-	**8,099**
Purchases	1,175,791	-	**1,175,791**
Royalty expense	-	330,378	**330,378**
Legal fees paid	-	65,468	**65,468**
Service fees	399,843	-	**399,843**
Expense reimbursement	298,488	-	**298,488**
Allocation fees	30,282	-	**30,282**
Balances as at March 31, 2016			
Accounts receivable	29,098	-	**29,098**
Other receivables	423,693	-	**423,693**
Accounts payable	-	88,368	**88,368**
Other payable	465,396	-	**465,396**

The line of credit to the extent of $ Nil (March 31, 2016: $ 2,000,000) is guaranteed by Pidilite Industries Limited.

NOTE O - COMMITMENTS AND CONTINGENCIES

a) Operating leases

The Company leases office space at Bloomington and Hazleton, manufacturing and warehousing facilities and office equipment under cancelable and non-cancelable operating lease agreements that are renewable on a periodic basis at the option of both the lessor and the lessee. Rental payments under such leases were $ 640,463 (March 31, 2016: $ 558,868) for the year ended March 31, 2017.

Details of contractual payments under non-cancelable leases are given below:

Year ending	Rental commitments for office premises	Rental commitments for manufacturing and warehousing facilities
March 31, 2018	168,416	146,339
March 31, 2019	81,798	-

b) Employment contracts

The Company has employment agreements with key executive officers. These agreements provide for base salaries, bonus, perquisites and fringe benefits as approved by the Board of Directors. The Company accrues for incentives payable to the key executive officers.

c) Litigations and claims

During the year ended March 31, 2014 a case was filed against the Company for infringement of a patent relating to metallic markers. The Company has settled outside the court with the party on the subject. Based on the agreement the Company agreed to pay royalty from 2006 of $ 60,000 to settle all past claims till June 6, 2013 and a royalty at the rate of $ 0.015 per marker till October 12, 2019.

NOTE P – RETIREMENT PLANS

The Company contributes to two 401(k) plans for salaried and eligible hourly personnel. The contribution for the year ended March 31, 2017 is $ 98,548 (March 31, 2016: $ 95,404).

NOTE Q – PRODUCT RECALL EXPENSES

During the year, the Company had done a voluntary recall based on routine product quality control inspections and thereby recalled 2.8 million units of Arts and crafts tempera and finger paints manufactured and distributed by Sargent Arts division. The recall involves 13 types of Sargent Art tempera and finger paints manufactured and distributed between May 01, 2015 and June 10, 2016. The selling, general and administrative expenses include expenses pertaining to the recall exercise of $ 3,800,000, as summarized below:

Particulars	Amount US$
Sales return from customers	1,108,278
Inventory written off	1,234,508
Refund claim, legal and other expenses	1,383,741
Additional provision	73,473
Total	**3,800,000**

NOTE R – CONCENTRATION RISK

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect future operating results and cause actual results to vary materially from expectations include but are not limited to government regulations, competition, reliance on certain customers and credit risk.

The Company has concentration in respect of region in which it operates, which is the USA.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. To reduce its credit risk, the Company performs ongoing credit evaluations of customers. The Company concentrates its revenue with a single customer which account accounted for 12% revenues for the year ended March 31, 2017. The Company's two customers accounted for 25% of the accounts receivable as at March 31, 2017. No single customer accounted for 10% or more of the accounts receivable as at March 31, 2016 and revenues for the year ended March 31, 2016.

NOTE S - STOCKHOLDERS' EQUITY

The authorized share capital of the Company is 27,000,000 (March 31, 2016: 27,000,000 common shares) common shares of a par value of $ 1 each. The Company has issued 14,780,000 (March 31, 2016: 14,780,000 common shares) common shares of $ 1 each. Each share carries an equal voting right and is entitled to an equal share in the assets of the Company at liquidation.

NOTE T – SUBSEQUENT EVENTS

These financial statements considered subsequent events through May 03, 2017, the date the financial statements were available to be issued.

Appendix A – Supplementary information

1. Property and equipment, net

Particulars	Machinery and equipment	Office equipment	Leasehold improvements	Vehicles	Total
Gross block					
As at April 01, 2015	2,407,365	675,404	278,677	23,465	3,384,911
Additions during the year	279,244	12,356	18,458	-	310,038
Deletions during the year	-	-	-	-	-
As at March 31, 2016 (A)	**2,686,589**	**687,760**	**297,135**	**23,465**	**3,694,949**
As at April 01, 2016	2,686,589	687,760	297,135	23,465	3,694,949
Additions during the year	510,131	39,836	2,150	-	552,117
Deletions during the year	-	-	-	-	-
As at March 31, 2017 (C)	**3,196,720**	**727,596**	**299,285**	**23,465**	**4,247,066**
Accumulated depreciation					
As at April 01, 2015	1,707,335	569,278	173,647	19,312	**2,469,572**
Charge for the year	184,185	38,805	31,160	4,153	**258,303**
Disposal	-	-	-	-	**-**
As at March 31, 2016 (B)	**1,891,520**	**608,083**	**204,807**	**23,465**	**2,727,875**
As at April 01, 2016	1,891,520	608,083	204,807	23,465	2,727,875
Charge for the year	207,481	32,346	33,569	-	273,396
Disposal	-	-	-	-	-
As at March 31, 2017 (D)	**2,099,001**	**640,429**	**238,376**	**23,465**	**3,001,271**
Net block					
As at March 31, 2016 (A-B)	**795,069**	**79,677**	**92,328**	**-**	**967,074**
As at March 31, 2017 (C-D)	**1,097,719**	**87,167**	**60,909**	**-**	**1,245,795**

2. Goodwill and intangibles, net

Particulars	Trademark*	Goodwill	Software	Non-compete	Total
Gross block					
As at April 01, 2015	2,969,497	927,834	357,949	60,000	4,315,280
Additions during the year	-	-	-	-	-
Deletions during the year	-	-	-	-	-
As at March 31, 2016 (A)	**2,969,497**	**927,834**	**357,949**	**60,000**	**4,315,280**
As at April 01, 2016	2,969,497	927,834	357,949	60,000	4,315,280
Additions during the year	-	-	-	-	-
Deletions during the year	-	-	-	-	-
As at March 31, 2017 (C)	**2,969,497**	**927,834**	**357,949**	**60,000**	**4,315,280**
Accumulated depreciation					
As at April 01, 2015	1,761,298	-	337,782	60,000	2,159,080
Charge for the year	195,047	-	8,469	-	203,516
Disposal	-	-	-	-	**-**
As at March 31, 2016 (B)	**1,956,345**	**-**	**346,251**	**60,000**	**2,362,596**
As at April 01, 2016	1,956,345	-	346,251	60,000	2,362,596
Charge for the year	194,514	-	6,423	-	200,937
Disposal	-	-	-	-	-
As at March 31, 2017 (D)	**2,150,859**	**-**	**352,674**	**60,000**	**2,563,533**
Net block					
As at March 31, 2016 (A-B)	**1,013,152**	**927,834**	**11,698**	**-**	**1,952,684**
As at March 31, 2017 (C-D)	**818,638**	**927,834**	**5,275**	**-**	**1,751,747**

3. Bifurcation of inventory allowance for slow moving items

Classes of inventory	As at March 31, 2017	As at March 31, 2016
Raw material	19,069	11,651
Packing material	114,521	103,674
Intermediate items	35,075	15,293
Finished goods – mfg.	52,451	66,799
Finished goods – trading	756,718	581,918
Total	**977,834**	**779,336**

4. Income taxes

The following is the summary of items giving rise to deferred tax assets and liabilities:

Particulars	As at March 31, 2017	As at March 31, 2016
Tax effect of items constituting deferred tax liabilities		
Property and equipment	310,273	302,711
Intangible assets - goodwill	248,933	217,103
Tax effect of items constituting deferred tax liabilities	**559,206**	**519,814**
Tax effect of items constituting deferred tax assets		
Provision for doubtful debts	266,441	186,483
Inventory & Inventory reserve	756,627	623,383
Intangibles other than goodwill	14,044	16,225
Accrued bonus	29,451	46,876
Accrued expenses	31,338	727
Net operating losses	128,597	127,633
Tax effect of items constituting deferred tax assets	**1,226,498**	**1,001,327**
Total net deferred tax assets	**667,292**	**481,513**

Movement in deferred tax liability:

Particulars	Property, plant and equipment	Intangible assets - Goodwill	Total
Balance as on April 1, 2015	194,626	278,778	473,404
(Charged)/Credited :			
to Profit or loss	108,085	(61,675)	46,410
to other comprehensive income	-	-	-
deferred tax on basis adjustment	-	-	-
Balance as on March 31, 2016	**302,711**	**217,103**	**519,814**
(Charged)/Credited :			
to Profit or loss	7,562	31,830	39,392
to other comprehensive income	-	-	-
deferred tax on basis adjustment	-	-	-
Balance as on March 31, 2017	**310,273**	**248,933**	**559,206**

Movement in Deferred tax assets:

Particulars	Provision for doubtful debts	Inventory	Inventory reserve	Intangibles other than Goodwill	Accrued bonus	Accrued expenses	Net operating losses	Accrued vacation	AMT tax credit	Total
Balance as on April 1, 2015	210,267	346,416	48,149	18,740	47,785	8,721	921,375	18,556	19,011	1,639,020
(Charged)/Credited :										-
to Profit or loss	(23,784)	(6,227)	235,045	(2,515)	(909)	(7,994)	(793,742)	(18,556)	(19,011)	(637,693)
to other comprehensive income	-	-	-	-	-	-	-	-	-	-
deferred tax on basis adjustment	-	-	-	-	-	-	-	-	-	-
Balance as on March 31, 2016	**186,483**	**340,189**	**283,194**	**16,225**	**46,876**	**727**	**127,633**	**-**	**-**	**1,001,327**
(Charged)/Credited :										-
to Profit or loss	79,958	47,243	86,001	(2,181)	(17,426)	30,611	965	-		225,171
to other comprehensive income	-	-	-	-	-	-	-	-	-	-
deferred tax on basis adjustment	-	-	-	-	-	-	-	-	-	-
Balance as on March 31, 2017	**266,441**	**387,432**	**369,195**	**14,044**	**29,450**	**31,338**	**128,598**	**-**	**-**	**1,226,498**

Reconciliation of income tax expense and the accounting profit multiplied by Company's domestic tax rate:

Particulars	Year ended March 31, 2017	Year ended March 31, 2016
Profit before tax from continuing operations	**234,248**	**2,665,496**
Income tax expense calculated at 34% (2016: 34%)#	79,644	902,869
Effect of tax rates in foreign jurisdictions	-	-
Reduction in tax rate	-	-
Effect of income that is exempt from taxation	-	-
Effect of expenses that is non-deductible in determining taxable profit	(9,525)	(19,953)
Effect of tax incentives and concessions (research and development and other allowances)	-	-
Effect of current year losses for which no deferred tax asset is recognized	-	-
Effect of recognition of tax effect of previously unrecognized tax losses now recognized as deferred tax assets	-	-
Changes in recognized deductible temporary differences	148,506	(654,682)
Changes in estimates related to prior years	-	-
Unrecognized AMT Credit	-	(19,012)
Unrecognized foreign tax Credit	-	-
State taxes	9,718	53,222
	228,343	**262,444**
Adjustments recognized in the current year in relation to the current tax of prior years	57,307	(5,096)
Income tax expense recognized in profit or loss from continuing operations	**285,650**	**257,348**

#The tax rate used for March 31, 2017 reconciliation above is the corporate federal tax rate of 34% payable by corporate entities in US on taxable profits under US tax laws.