

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

MARCH 31, 2020

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders' of
ADF Holdings (USA) Ltd.

We have audited the accompanying consolidated financial statements of ADF Holdings (USA) Ltd. (a Corporation) and Subsidiary, which comprise the consolidated balance sheet as of March 31, 2020, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Cont.)

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ADF Holdings (USA) Ltd. and Subsidiary
Independent Auditor's Report (Cont.)
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ADF Holdings (USA) Ltd. and Subsidiary as of March 31, 2020 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 20 through 27, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Furness & Co., P.C.

New York, N.Y.

April 29, 2020

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

MARCH 31, 2020

ASSETS

Current assets

Cash and cash equivalents (Note 1)	\$	1,268,763
Accounts receivable (Note 1)		1,211,495
Inventories (Notes 1 and 3)		3,576,126
Prepaid expenses and taxes		<u>106,031</u>

Total current assets 6,162,415

Property and equipment, at cost (Notes 1 and 2)

Machinery and equipment		47,385
Furniture and fixtures		4,235
Computer equipment		<u>6,765</u>

Total property and equipment 58,385
Less: accumulated depreciation and amortization (57,828)

Total property and equipment, net 557

Other assets

Security deposits		2,391
Deferred tax assets (Notes 1 and 5)		<u>1,074,708</u>

Total other assets 1,077,099

Total assets \$ 7,240,071

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

MARCH 31, 2020

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Accounts payable	\$ 983,326
Customer deposit	109,873
Accrued expenses and other payables	341,395
Due to parent company (Note 10)	500,000
Other current liabilities	3,493
Due to employees	<u>130</u>
Total current liabilities	<u>1,938,217</u>
Long-term liabilities	
Due to parent company (Note 10)	<u>10,000</u>
Total long-term liabilities	<u>10,000</u>
Total liabilities	<u>1,948,217</u>
Commitments and contingencies (Note 7)	
Stockholders' equity	
Preferred stock: Authorized 100,000 shares	
Issued and outstanding 21,197 shares	
\$0.001 par value	21
Common stock: Authorized 100,000 shares	
Issued and outstanding 12,000 shares	
\$0.001 par value	12
Additional paid-in capital (Note 10)	10,665,100
Treasury stock (11,152 shares) (Note 1)	(622,040)
Accumulated other comprehensive loss (Notes 1 and 11)	(98,989)
Accumulated deficit	<u>(4,652,250)</u>
Total stockholders' equity	<u>5,291,854</u>
Total liabilities and stockholders' equity	<u>\$ 7,240,071</u>

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2020

Net sales (Note 1)	\$ 12,570,622
Cost of goods sold	<u>8,679,389</u>
Gross profit	<u>3,891,233</u>
Operating expenses	<u>1,976,473</u>
Operating income	<u>1,914,760</u>
Other expense	
Penalties	(13,022)
Depreciation expense (Note 1)	(760)
Impairment of trademarks	(50,000)
Bad debt expense	(149,600)
Interest expense	<u>(19)</u>
Total other expense	<u>(213,401)</u>
Income before income tax expense	1,701,359
Income tax expense (Note 8)	<u>(417,320)</u>
Net income	1,284,039
Accumulated deficit - beginning of period	(5,936,222)
Preference share dividend	<u>(67)</u>
Accumulated deficit - end of period	<u>\$ (4,652,250)</u>

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED MARCH 31, 2020

	<u>Preferred stock</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Treasury stock</u>	<u>Comprehensive income (loss)</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive loss</u>	<u>Total</u>
Balances as of April 1, 2019	\$ 11	\$ 12	\$ 9,515,110	\$ (622,040)	\$	\$ (5,936,222)	\$ (98,989)	\$ 2,857,882
Additional contribution	10		1,149,990			(67)		1,149,933
Comprehensive loss								
Net income					<u>1,284,039</u>	<u>1,284,039</u>		<u>1,284,039</u>
Total comprehensive loss					<u>1,284,039</u>			<u>1,284,039</u>
Balances as of March 31, 2020	<u>\$ 21</u>	<u>\$ 12</u>	<u>\$ 0,665,100</u>	<u>(622,040)</u>		<u>\$ (4,652,250)</u>	<u>\$ (98,989)</u>	<u>\$ 5,291,854</u>

Preferred stock

Series A Preferred Stock 10,000 shares par value \$0.001 per share issued at \$622.50 per share on December 10, 2015.

Series A Preferred Stock redemption and cancellation of 803 shares at issue price on May 25, 2017.

Series B Preferred Stock 1,000 shares par value \$0.001 per share issued at \$415.00 per share on March 31, 2017.

Series C Preferred Stock 1,000 shares par value \$0.001 per share issued at \$100.00 per share on March 31, 2019.

Series D Preferred Stock 10,000 shares par value \$0.001 per share issued at \$115.00 per share on November 11, 2019.

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2020

Cash flows from operating activities:	
Net income	\$ <u>1,284,039</u>
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	760
Impairment of trademarks	50,000
Deferred taxes	388,806
Bad debt	149,600
Changes in operating assets and liabilities	
Accounts receivable	(722,608)
Inventories	(2,295,037)
Other receivables and taxes	(75,465)
Accounts payable, accrued expenses and taxes	<u>564,000</u>
Total adjustments	<u>(1,939,944)</u>
Net cash used in operating activities	<u>(655,905)</u>
Cash flows from financing activities:	
Preference dividend	(67)
Additional paid in capital	1,150,000
Loan from parent company	<u>500,000</u>
Net cash provided by financing activities	<u>1,649,933</u>
Net increase in cash and cash equivalents	994,028
Cash and cash equivalents - beginning	<u>274,735</u>
Cash and cash equivalents - ending	<u>\$ <u>1,268,763</u></u>
<u>Supplemental disclosures of cash flow information:</u>	
Cash paid during the period for: Interest	\$ 19
Income taxes	\$ 18,614

See independent auditor's report and notes to consolidated financial statements.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES**

Company overview

ADF Holdings (USA) Ltd. (the “Company”) was incorporated on September 29, 2010 under the laws of the State of Delaware. The Company is a wholly owned subsidiary of ADF Foods (UK) Ltd. (the "Parent"), a company incorporated in United Kingdom which is ultimately owned by ADF Foods Ltd., a company incorporated in India. The Company has no other material operations apart from managing its subsidiary. The Company owned eighty nine percent (89%) of ADF Foods (USA) Ltd. (the "Subsidiary"), a Delaware Corporation and the remaining eleven percent (11%) that was previously owned by Peter Sartorio (5%) and The Mark Cooley and Joan D' Ambrosio Revocable Trust (6%) was bought back by the Subsidiary during the year to be kept back as treasury stock. Subsequent to the purchase of the shares held by the minority shareholders as treasury stock, the Company effectively now owns 100% of the Subsidiary.

On November 3, 2010, the Company purchased the inventory, plant, equipment and certain rights from Elena’s Food Specialties Inc., a California Corporation pursuant to an Asset Purchase Agreement (the “Purchase Agreement”). The Company’s corporate headquarters are located in South San Francisco, California where the Subsidiary operates a USDA organic certified facility engaged in the production, marketing and sales of premium natural and organic food products of various food categories with well-known brands including PJ’s, Nates, Elena’s, and Nonna’s sold to retail, private label and food service customers located in the United States and Canada.

In 2015, the Subsidiary shut down its own manufacturing facility in California and sold, leased, transferred and abandoned its fixed assets, raw materials and packaging materials.

In 2015, the Subsidiary entered into a manufacturing and co-packaging agreement with another packaged food manufacturing facility in Cleveland, Ohio for a term of two years.

In 2016, the Subsidiary is engaged in marketing and sales of its premium natural and organic food products of various food categories mentioned above to retail, private label and food service customers located in United States and Canada.

In 2018, the Subsidiary entered into a manufacturing and co-packaging agreement with another packaged food manufacturing facility in Vernon, California for a term of two years.

In 2019, the Company signed an exclusive master distributorship agreement with Unilever, Canada and thereby was appointed as their sole distributor for a portfolio of products to be distributed on the East coast of USA.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant inter-company investments, advances, transactions and profits have been eliminated.

Use of estimates in preparing financial statements

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as revenue and expenses during the reporting period. The most significant assumptions and estimates relate to the determination of allowances for returns, credits and doubtful accounts, inventory valuations, depreciation of property and income taxes. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Concentration of risk

The Company maintains its cash in bank deposit accounts, which at times may exceed the federally insured limits of \$250,000 at each banking institution. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable

Accounts receivable represent amounts due from customers for the goods sold by the Company. The provision for doubtful accounts is determined using historical information and current evaluations of accounts. Accounts receivable of \$1,211,495 are shown net of an allowance for doubtful accounts of \$0 as at March 31, 2020.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Inventories

The inventories consist of finished goods that are valued at the lower of cost (first-in, first-out) or market.

Property and equipment

Property and equipment are stated at cost. Depreciation expense is calculated principally using the straight line method for books and double declining balance method for tax. The depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. The estimated useful lives for computing depreciation are generally as follows:

Machinery and equipment	5 years
Furniture and fixtures	5 years
Automobiles	5 years
Leasehold improvements	lesser of the lease term or life of the asset

Maintenance and repairs are charged to expense as incurred. Gains or losses arising from retirements or sales of assets are included in income currently. Depreciation begins when assets are placed in service. The depreciation expense amounted to \$760 for the year ended March 31, 2020.

Impairment of long-lived assets

In accordance with Codification 360-10 and 360-20, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company monitors the carrying value of long-lived assets for potential impairment based on whether certain trigger events have occurred. These events include current period losses combined with a history of losses or projection of continuing losses or a significant decrease in the market value of an asset. When a trigger event occurs, an impairment calculation is performed, comparing projected discounted future cash flows to the carrying value of an asset. If impairment is identified for long-lived assets to be held and used, discounted future cash flows are compared to the asset's current carrying value. Impairment is recorded when the carrying value exceeds the discounted cash flows.

Management had determined an impairment of its trademarks amounting to \$1,750,000 for the year ended March 31, 2017; \$790,000 for the year ended March 31, 2018; \$1,410,000 for the year ended March 31, 2019 and \$50,000 for the year ended March 31, 2020. As at March 31, 2020 the book value of Trademarks is fully written off.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Income taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more-likely-than-not will be realized. In making such determination, the Company considers all available positive and negative evidences, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. In the event the Company were to determine that it would be able to realize its deferred income tax assets in the future in excess of its net recorded amount, the Company would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

In July 2006, the Financial Accounting Standards Board (“FASB”) issued Financial Interpretation (“FIN”) 48, “Accounting for Uncertainty in Income Taxes,” which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards (“SFAS”) 109, “Accounting for Income Taxes.” (FASB Accounting Standards Codification™ (ASC or Codification) 740, Income Taxes). FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods.

This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective September 29, 2010, its inception.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 1 **SUMMARY OF ACCOUNTING POLICIES (CONT.)**

Income taxes (cont.)

The Company's management believes that its income tax filing positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change to the Company's financial position. Therefore, no reserves for uncertain income tax positions were recorded.

It is the Company's policy to include any interest and penalties related to unrecognized tax benefits in its interest expense and general and administrative expenses, respectively. However, the Company currently has no interest or penalties related to unrecognized tax benefits.

Revenue recognition

Sales are generally recognized when merchandise is shipped to customers.

Concentration of credit risk

For the year ended March 31, 2020, seven customers accounted for approximately 88% of sales and they accounted for approximately 73% of the accounts receivable.

Advertising

Advertising and business promotion costs, not having future benefit, are charged to operations when incurred. Advertising and business promotion costs amounted to \$550,611 for the year ended March 31, 2020.

Economic dependency

The Company purchases substantially all of its finished goods from two suppliers. As at March 31, 2020, amounts due to these suppliers are 94% of total accounts payable.

Comprehensive income

The Company has adopted SFAS No.130, "Reporting Comprehensive Income". SFAS No. 130 requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 2 **ASSET PURCHASE AGREEMENT**

On November 1, 2010, pursuant to the Purchase Agreement, the Company purchased certain assets, rights, and assumed certain liabilities from Elena’s Food Specialties Inc., a California Corporation for a total cash purchase price of \$900,000. The fair market values assigned to the purchase of the assets and assumption of liabilities are as follows:

Plant, equipment and machinery	\$	642,785
Inventories		369,584
Computer equipment		9,383
Leasehold improvements		25,007
Deferred interest		19,481
Capital lease obligation assumed		<u>(166,240)</u>
 Total	 \$	 <u><u>900,000</u></u>

NOTE 3 **INVENTORIES**

Inventories as at March 31, 2020 are summarized as follows:

Finished goods, including in-transit		\$ <u>3,576,126</u>
 Total		 \$ <u><u>3,576,126</u></u>

NOTE 4 **TRADEMARKS**

In December 2010, the Company purchased certain trademarks including “PJ’s”, “Nate’s” and “Elena’s Food Specialties” and any related service marks utilizing those names from ADF Foods (Mauritius) Ltd., an affiliate, for a total purchase price of \$4,000,000.

The Company's management conducted an impairment test for its trademarks and recorded any impairment charge amounting to \$1,750,000 related to its trademarks for the year ended March 31, 2017 (Refer Note 1).

Management had further determined an impairment to its trademarks amounting to \$790,000 for the year ended March 31, 2018 (Refer Note 1).

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 4 **TRADEMARKS (Cont.)**

Management had further determined an impairment to its trademarks amounting to \$1,410,000 for the year ended March 31, 2019 (Refer Note 1).

Management has further determined an impairment to its trademarks amounting to \$50,000 for the year ended March 31, 2020 (Refer Note 1).

As at March 31, 2020 the book value of Trademarks is fully written off.

NOTE 5 **DEFERRED INCOME TAXES**

Deferred income tax assets result from temporary differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Following is a summary of significant components of deferred tax assets (liabilities) as at March 31, 2019:

Current		
263A Inventory	\$	13,352
Paid time off accrual		6,300
Net operating loss		737,308
Depreciation expense		415
Trademarks		(522,667)
Impairment of trademarks		<u>840,000</u>
Total deferred tax assets		<u>\$1,074,708</u>

The Company has unused federal net operating loss carryforwards that expire as follows:

<u>Year of loss</u>	<u>Available NOL</u>	<u>Expiring in year</u>
2014	555,935	2034
2015	1,385,869	2035
2016	1,505,075	2036
2017	<u>64,105</u>	2037
	<u>\$ 3,510,984</u>	

Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

NOTE 5 **DEFERRED INCOME TAXES (Cont.)**

The management of the Company believes that it is more-likely-than-not that all of the deferred tax assets will be realized. As at March 31, 2020, the Company has provided a valuation allowance of \$0. The Company is subject to taxation in the United States of America ("U.S.") and seven U.S. States. As at March 31, 2020, the Company's tax years for 2016, 2017 and 2018 are subject to examination by the authorities.

NOTE 6 **PENSION PLAN**

From January 1, 2019, the Company established an Employee Retirement 401(k) plan for its employees. Employee contributions are voluntary and are subject to maximum amounts established by the Internal Revenue Code. The Company contributes 3% of the employees' total salary based upon a predetermined formula. The Company's contribution to the plan included in payroll taxes and expenses amounted to \$9,011.

NOTE 7 **COMMITMENTS AND CONTINGENCIES**

Leases

The Company had leased premises for its office space under a two year operating lease from September 15, 2017 and ending on September 30, 2019. Minimum future rental payments, which are subject to customary escalation clauses. The Company, is currently exploring renewal options for its office space and continues in current office on a month to month basis.

Royalty agreement

On December 20, 2010, a royalty agreement was executed between the Company (the "Licensor") and the Subsidiary (the "Licensee") with an effective date of January 1, 2011 (the "Effective Date"). According to the terms of the royalty agreement, the Licensor licensed certain Trademarks (PJ'S ORGANICS, Nates and Elena's Kitchen) to the Licensee for the exclusive use for the production and marketing of its products in the international and domestic markets. The Licensee agreed to pay the Licensor a royalty fee of 5% of the net sales (gross sales less returns and allowances) for the usage of said Trademarks. The royalty shall be payable on a quarterly basis before the 15th day of succeeding calendar month. The initial royalty agreement expired on December 31, 2013. A new agreement dated January 1, 2014 was executed for a further period of 36 months ending December 31, 2016 and that it may be extended for a further period of one year as may be mutually decided by the parties to the agreement. Effective January 1, 2018 the agreement was renewed for another 36 months ending on December 31, 2020. Due to the limited volume of business generated that is related to trademarks and the writeoff off the Trademarks Company's management has decided to discontinue future royalty payments. For the year ended March 31, 2020, the royalty fees amounted to \$33,513.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

NOTE 7 **COMMITMENTS AND CONTINGENCIES (Cont.)**

Litigation

During the prior year, the Subsidiary received a notice of violation from the Center for Environmental Health ("CEH"), a non-profit California corporation which had filed a lawsuit against ADF Foods (USA) Ltd. and certain other non-affiliated companies as defendants ("Defendants") with the Superior Court of California, County of Alameda. Plaintiff in its complaint has alleged that the Defendants are distributors and importers who have violated California's Proposition 65, Health & Safety Code § 25249.5, et seq., by manufacturing, marketing, importing, distributing, and / or selling Indian pastes and sauces containing ginger. In California, ginger in the questioned product has lead content which is beyond prescribed norms. Hence, a hazard warning should have been disclosed on the product label.

The Subsidiary, had consulted with its legal counsel, exploring filing a consent agreement with CEH along with a commitment to maintain the ginger levels within the acceptable limits and had approximated settlement amount to be approximately \$100,000 in addition to the attorney fees to be approximately \$50,000. The Subsidiary, had not accrued any contingent liability in connection with this litigation on its financial statements as at March 31, 2019. In the event of an unfavourable outcome from this litigation, any settlement amount paid by the Subsidiary, was to be fully reimbursed by its ultimate Parent company in India, ADF Foods Ltd.

During the year, ended March 31, 2020 this litigation was settled and Parent company in India, had paid the settlement as this was related to the business directly sourced from India.

During the year, the Subsidiary, was served a subpoena from the Superior Court of New Jersey, Middlesex County, regarding a civil litigation between Chetak Foods (Plaintiff) Vs. ADF Foods (USA) Ltd., Apurva Patel and Savita Dubey (Joint defendants). The civil litigation has been filed by Chetak alleging that Apurva shared their confidential business information with ADF Group due to which Chetak's business opportunities were diversified to ADF Group. Initially, the complaint was filed against Apurva and his wife. Later on, the same was amended by Chetak to include ADF Foods (USA) Ltd. as a joint defendant. The Subsidiary, has retained a legal counsel for it legal representation. On December 02, 2019, the legal counsel had filed a motion for dismissal of the case in the Superior Court of New Jersey.

The Plaintiff's counsel has approached the Subsidiary for out of an out of court settlement. The Subsidiary, has not accrued any contingent liability in connection with this litigation on its financial statements as at March 31, 2020. In the event of an unfavourable outcome from this litigation, any settlement amount paid by the Subsidiary, will be fully reimbursed by its ultimate Parent company in India, ADF Foods Ltd.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 8 **CORPORATE TAXES**

The Company's corporate tax consists of the following:

State tax	\$ 28,514
Deferred taxes	<u>388,806</u>
Income tax expense	<u>\$ 417,320</u>

New tax legislation

In December 2017, the US Tax Cuts and Jobs Act was signed into law. Effective January 1, 2018, among other provisions the federal corporate tax rate has been replaced with a flat 21% rate and the alternative minimum tax has been eliminated. Additionally, the Act allows federal net operating losses ("NOLs") incurred after December 31, 2017 to be carried forward indefinitely, while eliminating the two year carryback rule. The Act generally limits the NOL deduction for post 2017 NOLs to 80% of taxable income, determined without regard to the NOL deduction.

NOTE 9 **LOAN PAYABLE - RELATED PARTY**

As at March 31, 2020, the Subsidiary owes net \$6,054,676 to the Holding company. The outstanding amount includes:

Working capital loan (3% interest bearing)	\$ 3,229,209
Royalty payable	1,764,573
Management fee payable	820,000
Interest on unpaid loan payable	1,265,888
Interest on unpaid royalty payable	189,161
Interest on unpaid management fee	<u>55,989</u>
Total payable	7,324,820
Tax benefit receivable	<u>(1,270,144)</u>
Total - net	<u>\$ 6,054,676</u>

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 10 **DUE TO / FROM PARENT COMPANY**

In December 2015, the Company converted Parent loan into Preferred stock issuing 10,000 Preferred stock (Series A) for a total amount of \$6,225,000.

In March 2017, the Company converted Parent loan into Preferred stock issuing 1,000 Preferred stock (Series B) for a total amount of \$415,000.

On May 25, 2017 the Company redeemed and cancelled 803 shares of Series A Preferred stock at its issue price.

On March 31, 2019, the Company converted Parent loan into Preferred stock issuing 1,000 Preferred stock (Series C) for a total amount of \$100,000.

On November 11, 2019, the Company converted Parent loan into Preferred stock issuing 10,000 Preferred stock (Series D) for a total amount of \$1,150,000.

As at March 31, 2020, the Company owes a non-interest bearing advance amounting to \$510,000 to its UK Parent company.

NOTE 11 **COMPREHENSIVE LOSS**

The comprehensive loss resulting from the initial equity investment was computed as follows:

	<u>Total</u>	<u>Stockholders' equity</u>	<u>Non-controlling interest</u>
Initial investment in the Subsidiary	\$ 900,011	\$ 900,000	\$ 11
Initial equity adjustment	<u> </u>	<u>(98,989)</u>	<u>98,989</u>
Total adjusted equity	<u>\$ 900,011</u>	<u>\$ 801,011</u>	<u>\$ 99,000</u>
Equity percentages (%)	<u>100</u>	<u>89</u>	<u>11</u>

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2020

NOTE 12 **RELATED PARTY TRANSACTIONS**

For the year ended March 31, 2020, the Company purchased finished goods amounting to \$28,800 from ADF Foods Ltd., the group parent company in India. Included in the inventory are finished goods purchased from group parent amounting to \$12,400. For the year ended March 31, 2020, the Company owed \$0 to ADF Foods Ltd., India for purchases of finished goods.

For the year ended March 31, 2020, the Company paid sales commission to the group President and CEO amounting to \$254,000.

NOTE 13 **FINANCING FROM PARENT**

The Company and its Subsidiary have experienced significant consolidated losses since inception and are reliant on Parent for financial support. The Company and the Subsidiary have received a letter from Parent pledging continued support through March 31, 2021.

NOTE 14 **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through April 29, 2020, the date on which the consolidated financial statements were available to be issued. No events other than below were identified that required adjustment or disclosure in the consolidated financial statements.

In early March 2020, the COVID-19 virus was declared a global pandemic, and it unfortunately continues to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, could be severely impacted for months or more, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

S U P P L E M E N T A L I N F O R M A T I O N
(See Independent Auditor's Report)

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF COST OF GOODS SOLD
FOR THE YEAR ENDED MARCH 31, 2020

Inventories - beginning	\$ 1,281,089
Purchases	10,627,646
Incoming costs	<u>346,780</u>
Goods available for sale	12,255,515
Less: inventories - ending	<u>(3,576,126)</u>
Cost of goods sold	<u>\$ 8,679,389</u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATED SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED MARCH 31, 2020

Salaries	\$	293,664
Advertisement and business promotion		550,611
Sales and distribution expenses		392,285
Consulting fee		74,171
Sales commission		281,896
Payroll taxes and expenses		57,294
Office expenses		12,309
Insurance		81,245
Rent		30,816
Taxes and license fee		22,442
Telephone and telex		15,173
Legal and professional		5,767
Postage and delivery		1,639
Bank charges		4,725
Dues and subscription		10,360
Accounting fee		73,500
Travel		38,132
R&D costs		<u>30,444</u>
Total operating expenses	\$	<u><u>1,976,473</u></u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEETS

MARCH 31, 2020

ASSETS

	<u>Consolidated</u>	<u>Eliminations</u>	<u>ADF Holdings (USA) Ltd.</u>	<u>ADF Foods (USA) Ltd.</u>
Current assets				
Cash and cash equivalents	\$ 1,268,763	\$	\$ 406,437	\$ 862,326
Accounts receivable	1,211,495		552,554	658,941
Inter-company receivables		(1,270,144)		1,270,144
Inventories	3,576,126		2,897,810	678,316
Prepaid expenses and taxes	<u>106,031</u>	<u> </u>	<u>17,461</u>	<u>88,570</u>
Total current assets	<u>6,162,415</u>	<u>(1,270,144)</u>	<u>3,874,262</u>	<u>3,558,297</u>
Investment in subsidiary	<u> </u>	<u>(900,000)</u>	<u>900,000</u>	<u> </u>
Property and equipment, at cost				
Machinery and equipment	47,385			47,385
Furniture and fixtures	4,235			4,235
Computer equipment	<u>6,765</u>	<u> </u>	<u> </u>	<u>6,765</u>
Total property and equipment	58,385			58,385
Less: accumulated depreciation and amortization	<u>(57,828)</u>	<u> </u>	<u> </u>	<u>(57,828)</u>
Total property and equipment, net	<u>557</u>	<u> </u>	<u> </u>	<u>557</u>
Other assets				
Trademarks				
Security deposits	2,391			2,391
Due from ADF Foods (USA) Ltd.		(5,813,783)	5,813,783	
Deferred tax assets	1,074,708		1,074,708	
Interest receivable ADF Foods (USA) Ltd.	<u> </u>	<u>(1,511,037)</u>	<u>1,511,037</u>	<u> </u>
Total other assets	<u>1,077,099</u>	<u>(7,324,820)</u>	<u>8,399,528</u>	<u>2,391</u>
Total assets	<u>\$ 7,240,071</u>	<u>\$ (9,494,964)</u>	<u>\$13,173,790</u>	<u>\$ 3,561,245</u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEETS

MARCH 31, 2020

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)

	<u>Consolidated</u>	<u>Eliminations</u>	<u>ADF Holdings (USA) Ltd.</u>	<u>ADF Foods (USA) Ltd.</u>
Current liabilities				
Accounts payable	\$ 983,326	\$	\$ 722,082	\$ 261,244
Customer deposit	109,873		109,873	
Accrued expenses and other payables	341,395		120,451	220,944
Due to ADF Foods (USA) Ltd.		(1,270,144)	1,270,144	
Due to parent company	500,000		500,000	
Other current liabilities	3,493			3,493
Due to employees	130			130
Total current liabilities	<u>1,938,217</u>	<u>(1,270,144)</u>	<u>2,722,550</u>	<u>485,811</u>
Long-term liabilities				
Due to parent company	10,000		10,000	
Inter-company payables		(7,324,820)		7,324,820
Total long-term liabilities	<u>10,000</u>	<u>(7,324,820)</u>	<u>10,000</u>	<u>7,324,820</u>
Total liabilities	<u>1,948,217</u>	<u>(8,594,964)</u>	<u>2,732,550</u>	<u>7,810,631</u>
Commitments and contingencies				
Stockholders' equity (deficiency)				
Preferred stock: Authorized 100,000 shares				
Issued and outstanding 21,197 shares \$0.001 par value	21		21	
Common stock: Authorized 100,000 shares				
Issued and outstanding 12,000 shares \$0.001 par value	12	(100)	12	100
Additional paid-in capital	10,665,100	(899,900)	10,665,100	899,900
Treasury stock (11,152 shares)	(622,040)			(622,040)
Accumulated other comprehensive loss	(98,989)			(98,989)
Accumulated deficit	(4,652,250)		(223,893)	(4,428,357)
Total stockholders' equity (deficiency)	<u>5,291,854</u>	<u>(900,000)</u>	<u>10,441,240</u>	<u>(4,249,386)</u>
Total liabilities and stockholders' equity (deficiency)	<u>\$ 7,240,071</u>	<u>\$ (9,494,964)</u>	<u>\$13,173,790</u>	<u>\$ 3,561,245</u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2020

	<u>Consolidated</u>	<u>Eliminations</u>	ADF Holdings (USA) Ltd.	ADF Foods (USA) Ltd.
Net sales	\$12,570,622	\$	\$ 4,306,478	\$ 8,264,144
Cost of goods sold	<u>8,679,389</u>	<u> </u>	<u>3,304,516</u>	<u>5,374,873</u>
Gross profit	<u>3,891,233</u>	<u> </u>	<u>1,001,962</u>	<u>2,889,271</u>
Operating expenses	<u>1,976,473</u>	<u> </u>	<u>332,945</u>	<u>1,643,528</u>
Operating income	<u>1,914,760</u>	<u> </u>	<u>669,017</u>	<u>1,245,743</u>
Other income (expense)				
Penalties	(13,022)		(350)	(12,672)
Depreciation expense	(760)			(760)
Impairment of trademarks	(50,000)		(50,000)	
Royalty income (expense)			33,513	(33,513)
Bad debt expense	(149,600)			(149,600)
Interest income		(109,109)	109,109	
Interest expense	<u>(19)</u>	<u>109,109</u>	<u> </u>	<u>(109,128)</u>
Total other expense, net	<u>(213,401)</u>	<u> </u>	<u>92,272</u>	<u>(305,673)</u>
Income before income tax	1,701,359		761,289	940,070
Income tax expense	<u>(417,320)</u>	<u> </u>	<u>(291,740)</u>	<u>(125,580)</u>
Net income	1,284,039		469,549	814,490
Accumulated deficit - beginning	(5,936,222)		(693,375)	(5,242,847)
Preference share dividend	<u>(67)</u>	<u> </u>	<u>(67)</u>	<u> </u>
Accumulated deficit - ending	<u>\$ (4,652,250)</u>	<u>\$</u>	<u>\$ (223,893)</u>	<u>\$ (4,428,357)</u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF COST OF GOODS SOLD
FOR THE YEAR ENDED MARCH 31, 2020

	<u>Consolidated</u>	<u>Eliminations</u>	ADF Holdings <u>(USA) Ltd.</u>	ADF Foods <u>(USA) Ltd.</u>
Inventories - beginning	\$ 1,281,089	\$	\$	\$ 1,281,089
Purchases	10,627,646		6,052,444	4,575,202
Incoming and warehousing costs	<u>346,780</u>	<u> </u>	<u>149,882</u>	<u>196,898</u>
Goods available for sale	12,255,515		6,202,326	6,053,189
Less: inventories - ending	<u>(3,576,126)</u>	<u> </u>	<u>(2,897,810)</u>	<u>(678,316)</u>
Cost of goods sold	<u>\$ 8,679,389</u>	<u>\$</u>	<u>\$ 3,304,516</u>	<u>\$ 5,374,873</u>

See independent auditor's report.

ADF HOLDINGS (USA) LTD. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED MARCH 31, 2020

	<u>Consolidated</u>	<u>Eliminations</u>	ADF Holdings (USA) Ltd.	ADF Foods (USA) Ltd.
Salaries	\$ 293,664	\$	\$	\$ 293,664
Advertisement and business promotion	550,611		5,996	544,615
Sales and distribution expenses	392,285			392,285
Consulting fee	74,171			74,171
Sales commission	281,896		254,000	27,896
Payroll taxes and expenses	57,294			57,294
Office expenses	12,309		166	12,143
Insurance expense	81,245		4,122	77,123
Rent	30,816			30,816
Taxes and license fee	22,442		2,040	20,402
Telephone and telex	15,173			15,173
Legal and professional	5,767		5,442	325
Postage and delivery	1,639			1,639
Bank charges	4,725		2,979	1,746
Dues and subscription	10,360			10,360
Accounting fee	73,500		29,500	44,000
Travel	38,132		28,700	9,432
R&D costs	<u>30,444</u>			<u>30,444</u>
Total operating expenses	<u>\$ 1,976,473</u>	<u>\$</u>	<u>\$ 332,945</u>	<u>\$ 1,643,528</u>

See independent auditor's report.