

APOLLO VREDESTEIN TIRES, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2019

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

APOLLO VREDESTEIN TIRES, INC.  
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Clifford M. Topel, CPA  
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Donald Goldberg, CPA (1922-2005)

### **Independent Auditor's Report**

To the Board of Directors  
c/o Apollo Tyres Cooperatief U.A.  
P.O. Box 27  
7500 AA Enschede  
The Netherlands

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Apollo Vredestein Tires Inc. (a Delaware Corporation), being part of Apollo Tyres Cooperatief U.A., which comprise the balance sheet as of March 31, 2019, and the related statements of income and stockholder's (deficit), and cash flows for the year then ended and related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Apollo Vredestein Tires, Inc. as of March 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of Cost of Goods Sold and Operating Expenses on page 15 and 16 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Certified Public Accountants

April 19, 2019

Manalapan, New Jersey

APOLLO VREDESTEIN TIRES, INC.  
BALANCE SHEET  
MARCH 31, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 51,740
Accounts receivable - net	2,338,378
Intercompany receivable - Apollo Tyres India	114,455
Inventory	423,605
Prepaid expenses	96,914
TOTAL CURRENT ASSETS	3,025,092

OTHER ASSETS

Security deposits	2,700
TOTAL OTHER ASSETS	2,700

TOTAL ASSETS	\$ 3,027,792
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LIABILITIES AND STOCKHOLDER'S (DEFICIT)

CURRENT LIABILITIES

Accounts payable	\$ 311,584
Intercompany payables	5,387,926
Accrued expenses	151,070
Accrued payroll and payroll taxes	2,735
Customer deposits	505
Accrued income taxes	1,710
Accrued customer discounts	430,768
TOTAL CURRENT LIABILITIES	6,286,298

STOCKHOLDER'S (DEFICIT)

Common Stock, 100 shares issued and outstanding, par value .01	50,000
Additional paid in capital	6,200,000
Retained (Deficit)	(9,508,506)
TOTAL STOCKHOLDER'S (DEFICIT)	(3,258,506)

TOTAL LIABILITIES AND STOCKHOLDER'S (DEFICIT)	\$ 3,027,792
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See independent auditor's report and notes to financial statement.

APOLLO VREDESTEIN TIRES, INC.  
STATEMENT OF INCOME AND STOCKHOLDER'S (DEFICIT)  
FOR THE YEAR ENDED MARCH 31, 2019

NET REVENUE	\$ 16,756,078
COST OF GOODS SOLD	<u>15,458,057</u>
GROSS PROFIT	1,298,021
OPERATING EXPENSES	<u>2,273,457</u>
LOSS BEFORE OTHER INCOME AND (EXPENSE) AND PROVISION FOR INCOME TAXES	<u>(975,436)</u>
OTHER INCOME AND (EXPENSE):	
Exchange rate gain	19,745
Other income	1,212
Interest expense	(656)
Research and development costs	<u>(3,042,993)</u>
TOTAL OTHER INCOME AND (EXPENSE)	<u>(3,022,692)</u>
LOSS BEFORE PROVISION FOR INCOME TAXES	(3,998,128)
PROVISION FOR INCOME TAXES:	
Corporate income taxes	<u>1,264</u>
NET LOSS	(3,999,392)
STOCKHOLDER'S (DEFICIT)	
beginning of year	<u>(5,509,114)</u>
STOCKHOLDER'S (DEFICIT)	
end of year	<u><u>\$ (9,508,506)</u></u>

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

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APOLLO VREDESTSTEIN TIRES, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED MARCH 31, 2019

Cash flows from operating activities:	
Net loss	\$ (3,999,392)
Adjustments to reconciled net loss to net cash (used) by operating activities:	
(Increase) decrease in assets:	
Accounts receivable	(874,355)
Intercompany receivable - Apollo Vredestein Hungary Kft	4,786
Intercompany receivable - Apollo Tyres India	(114,455)
Inventory	147,836
Prepaid expenses	(17,788)
Increase (decrease) in liabilities:	
Intercompany payables	2,760,762
Accounts payable	282,051
Accrued expenses	41,204
Accrued payroll and payroll taxes	2,735
Customer deposits	(235,162)
Accrued customers discounts	376,253
Net cash (used) by operating activities	(1,625,525)
Cash flows from financing activities:	
Paid in capital	1,500,000
Net cash provided by financing activities	1,500,000
Net decrease in cash	(125,525)
Cash at beginning of year	177,265
Cash at end of year	\$ 51,740
<u>Supplemental disclosure of cash flow information:</u>	
Cash paid during the period for:	
Interest	\$ -
Income taxes	\$ 1,264

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

APOLLO VREDESTSTEIN TIRES, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

Apollo Vredestein Tires, Inc., (a Delaware corporation), formally Vredestein Tyres North America, Inc., (the "Company") was formed November 19, 2004. The Company is the distributor in the United States of America, of high-quality tires for its affiliated parent corporation Apollo Tyres Cooperatief U.A., a manufacturer of tires. The company's customer base is comprised of independent tire distributors throughout the United States of America.

The Company's sales office is located in Atlanta, Georgia and its corporate headquarters is located in, The Netherlands.

**Basis of Accounting**

The Company's policy is to maintain its books and records on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

**Management Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with maturity of three months or less at the date of acquisitions to be cash equivalents.

**Accounts Receivable**

The Company grants credit to customers, substantially all of whom are tire distributors. The Company provides an allowance for doubtful accounts based on historical collection experiences coupled with review of the current status of existing receivables.

**Inventory**

Inventory is stated at the intercompany transfer price. Intercompany transfer prices are set by a related company, Apollo Vredestein B.V. The Intercompany transfer price to its affiliates is based upon a Standard cost price plus a markup of an average 10%.



APOLLO VREDESTEIN TIRES, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)**

**Revenue Recognition**

The Company generates revenues from the sale of tires, in which revenue is recognized when goods are shipped to the customers. Allowances for customer discounts and promotions, etc. are recorded as a component of net sales in the period the allowances are recognized. The following is an analysis of the Companies net revenues:

Revenue	\$ 18,369,893
Customers allowance	<u>(1,613,815)</u>
Total Net Revenue	<u>\$ 16,756,078</u>

**Concentration of Customer and Credit Risk**

Financial instruments, which potentially subject the Company to concentrations of credit risks, consist principally of cash and trade receivables. The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company places its cash investments with high credit quality financial institutions and monitors the financial condition of its customers. At March 31, 2019, cash balances exceeded the FDIC insurance limits by \$-0-.

The Company contracts with customers in the retail and wholesale tire distribution industry, primarily regional distributors. Ongoing credit evaluations of customer's financial condition are performed, and the financial conditions of these customers are monitored. The company has six customers that collectively account for approximately 71% of revenues and five of those customers account for 77% of the outstanding accounts receivable as of March 31, 2019.

**Advertising Expense**

Advertising costs are expensed as incurred. Advertising expense was approximately \$361,731 for the year ending March 31, 2019.

**Income Taxes**

The Company accounts for its income taxes under SFAS No.109, "Accounting for Income Taxes", which requires recognition of deferred tax liabilities and assets for the estimated future tax effects of events that have been recognized in the financial statements or income tax returns. Under this method, deferred tax liabilities and assets are determined based on differences between the financial accounting and income tax basis of assets and liabilities, and the use of loss carry forwards, if any, using enacted tax rates in effect for the years in which the differences and carry forwards are expected to reverse and be utilized. As of March 31, 2019, the Company has a net operating loss carryforward of \$9,522,973 and will expire on various dates from March 31, 2029 through March 31, 2039.

The Company has a deferred tax asset of approximately \$1,999,824, relating to its net operating loss, which has a 15 - 20 year carry forward period. The Company cannot determine if it is more likely than not, that this loss carry forward will be fully realized in future years by the generation of future taxable income. As such, the Company has recognized a valuation allowance equal to its deferred tax asset.

See auditor's report.

APOLLO VREDESTSTEIN TIRES, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2019

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)**

**Income Taxes - (continued)**

In accordance with accounting principles generally accepted in the United States of America management is required to determine whether a tax position is more likely-than-not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company files an income tax return in the U.S. federal jurisdiction and may file income tax returns in various U.S. states and jurisdictions. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Company recording a tax liability that would reduce stockholders' capital. Accounting principles generally accepted in the United States of America provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities. These principles must be applied to all existing tax positions upon adoption which, for the Company, was for the year ended March 31, 2019. Management concluded that it was not necessary to record a liability for any such tax positions as of March 31, 2019.

However, management's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analysis of, and changes to, tax laws, regulations and interpretations thereof. The Company's activities from commencement of operations remain subject to examination by federal, state and local authorities. No interest expense or penalties have been assessed for the year ended March 31, 2019. Management does not believe there are positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

**NOTE 2 - SUBSEQUENT EVENTS**

Management evaluated and transactions that occurred after the balance sheet date for potential recognition and disclosure through April 19, 2019, the date on which the financial statements were issued.

**NOTE 3 - INVENTORY**

The components of inventory at March 31, 2019 are as follows:

Finished goods	\$ 423,905
Provision for obsolete inventory	<u>(300)</u>
Total Inventory	<u>\$ 423,605</u>

APOLLO VREDESTSTEIN TIRES, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2019

**NOTE 3 - INVENTORY - (CONTINUED)**

Inventory is stated at the intercompany transfer price and may be adjusted based on a revaluation calculation. Apollo Vredestein B.V. charges intercompany inventory prices to its affiliates based upon a Standard cost price plus a markup of an average 10%. However standard cost prices and resultant intercompany transfer prices can be changed during the year based upon:

- A. Change in the exchange rate, if the exchange rate varies by 5%. In this case, transfer prices are revised upwards or downwards.
- B. Changes in the Raw material prices by 5% compared to budget. In this case, the difference is normally charged through a debit or credit note.

Generally accepted accounting principles requires inventory to be valued at the lower of cost or fair market value. The Company inventory pricing follows Generally accepted accounting principles and values inventory at the lower of cost or fair market value.

**NOTE 4 - ACCOUNTS RECEIVABLE**

A summary of accounts receivable as of March 31, 2019 is as follows:

Trade current	\$ 2,345,516
Trade 31-60 days	5,014
Trade 61-90 days	5,324
Trade over 90 days	<u>(10,465)</u>
Gross receivables	2,345,389
Allowance for doubtful accounts	<u>(7,011)</u>
Total accounts receivable, net	<u>\$ 2,338,378</u>

**NOTE 5 - INTERCOMPANY RECEIVABLE - APOLLO TYRES INDIA**

The Company has incurred research and development expenses on behalf of Apollo Tyres India during the year. This resulted in an intercompany receivable at March 31, 2019 of \$114,455. See Note 10 for the details of the related party transactions.

**NOTE 6 - INTERCOMPANY PAYABLE - APOLLO TYRES U.K. Pvt Ltd**

The Company is billed for shared management expenses from the U.K. office, Apollo Tyres U.K. Pvt Ltd. These cumulative expenses have resulted in an intercompany payable at March 31, 2019 of \$174,534. See Note 10 for the details of the related party transactions.

**NOTE 7 - INTERCOMPANY PAYABLE - APOLLO TYRES GLOBAL R&D B.V.**

The Company incurred payroll costs of one employee on behalf of a related company, Apollo Tyres Global R&D B.V. The Company has also been billed for research and development charges from the same related entity. This has resulted in an intercompany payable at March 31, 2019 in the amount of \$1,208,585. See Note 10 for the details of the related party transactions.

APOLLO VREDESTSTEIN TIRES, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2019

**NOTE 8 - INTERCOMPANY PAYABLE - APOLLO VREDESTSTEIN B.V.**

The Company purchases 100% of its inventory from a related company, Apollo Vredestein B.V., a Netherlands based corporation. In addition, the Company is billed by it's the related company for freight costs. These cumulative expenses have resulted in an intercompany payable at March 31, 2019 of \$4,004,807. See Note 10 for the details of the related party transactions.

**NOTE 9 - COMMITMENTS**

On January 31, 2017, the Company entered into a membership agreement for office space in Atlanta, Georgia. The membership agreement starts on June 1, 2017 and has a commitment of one month. In December 2018, the Company entered into a new membership agreement for office space in Atlanta with a six-month commitment ending May 31, 2019. The Company has informed the landlord that they will be moving into a new office in May of 2019. The new membership agreement starts May 1, 2019 and has a commitment of fourteen months ending on June 30, 2020. The membership agreement is \$7,850 per month.

The Company entered into a long-term operating lease agreement relating to warehouse space located in Export, Pennsylvania on June 1, 2015. The lease term is for five years ending on May 31, 2020. On November 8, 2016, the Company agreed to rent extra warehouse space in Export, Pennsylvania. The addendum will run concurrently with the original lease and end on May 31, 2019. The Company also leases space on a month to month basis for a storage unit in Atlanta, Georgia.

At March 31, 2019, future minimum rental payments under operating leases are as follows:

2020	\$ 135,450
2021	31,150
2022	-
2023	-
2024	-
Total	<u>\$ 163,100</u>

Rent expense for the year ended March 31, 2019 amounted to \$130,050.

**NOTE 10 - RELATED PARTY TRANSACTIONS**

For the year ended March 31, 2019, the Company has incurred research and development expenses on behalf of Apollo Tyres India during the year in the amount of \$114,455. The Company has an intercompany receivable balance of \$114,455, as of March 31, 2019, with that related entity as fully described in Note 5.

For the year ended March 31, 2019, the Company was billed for shared general management expenses from a related entity, Apollo Tyres U.K. Pvt Ltd. The Company also makes payments to the related party for the amounts billed. The gross amount billed to the Company for the year was \$242,422. The Company has an intercompany payable balance of \$174,534, as of March 31, 2019, with that related entity as fully described in Note 6.

APOLLO VREDESTSTEIN TIRES, INC.  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2019

NOTE 10 - RELATED PARTY TRANSACTIONS - (CONTINUED)

For the year ended March 31, 2019, the Company incurred payroll costs expenses for a related entity, Apollo Tyres Global R&D B.V. The Company was also charged research and development costs from the same related company during the year. The amount paid for payroll for the related entity during the year was \$148,229 and gross charges for research and development during the year was \$3,042,993. The Company has an intercompany payable balance of \$1,208,585, as of March 31, 2019, with that related entity as fully described in Note 7.

For the year ended March 31, 2018, the Company incurred freight costs from a related company, Apollo Vredestein B.V., in the amount of \$1,217,042. In addition, the Company purchases 100% of its inventory from the same related company. That amount totaled \$13,510,493 for the year ended March 31, 2019. The Company has an intercompany payable of \$4,004,807, as of March 31, 2019, with this related company as fully described in Note 8.

During the year, the parent company infused capital into the Company in the amount of \$1,500,000. The capital is for current and future operations and research and development costs. This amount was reported as additional paid in capital.

**SUPPLEMENTAL INFORMATION**

APOLLO VREDESTSTEIN TIRES, INC.  
SCHEDULE OF COST OF GOODS SOLD  
FOR THE YEAR ENDED MARCH 31, 2019

COST OF GOODS SOLD

Inventory - beginning of year	\$ 571,441
Purchases	13,380,168
Freight	<u>1,930,053</u>
Cost of goods available for sale	15,881,662
Inventory - end of year	<u>423,605</u>
 TOTAL COST OF GOODS SOLD	 <u><u>\$ 15,458,057</u></u>

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

APOLLO VREDESTEIN TIRES, INC.  
SCHEDULE OF OPERATING EXPENSES  
FOR THE YEAR ENDED MARCH 31, 2019

OPERATING EXPENSES

Advertising	\$ 361,731
Automobile expenses	51,630
Bad debt expenses	26,780
Bank and credit card charges	8,178
Computer and internet expense	270
Dues and subscriptions	6,988
Employee benefits	84,395
Equipment rental	1,344
Handling costs	25,200
Intercompany overhead costs	242,422
Insurance	27,974
Logistic costs	13,091
Meals and entertainment	17,494
Miscellaneous	3,682
Office expenses	1,094
Outside services	59,765
Payroll expense	941,159
Payroll taxes	92,019
Postage	2,583
Professional fees	56,314
Rent expense	130,050
Telephone expense	26,466
Travel	92,738
Utilities	90
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TOTAL OPERATING EXPENSES	<u><u>\$ 2,273,457</u></u>

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