



FLEX FILMS (USA) INC.

*Subsidiary Company of
FLEX Middle East FZE*



FINANCIAL STATEMENTS 2014 - 2015



FLEX FILMS (USA) INC

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS

and Stockholders of
Flex Films (USA) Inc.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Flex Films (USA) Inc. (a Kentucky corporation), which comprise the balance sheets as of March 31, 2015 and 2014 and the related statements of income and retained deficit, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the 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 the financial statements that are free of 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 our audit to obtain reasonable assurance about whether the financial statements are free of 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those 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 Flex Films (USA) Inc. as of March 31, 2015 and 2014, and the results of operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Stiles, Carter & Associates, PSC
Elizabethtown, Kentucky
May 6, 2015



FLEX FILMS (USA) INC

BALANCE SHEETS MARCH 31, 2015 AND 2014

ASSETS

	2015 US\$	2014 US\$
CURRENT ASSETS:		
Cash	\$ 2,026,254	\$ 1,090,361
Accounts receivable- trade, net of allowance for doubtful accounts	13,021,339	6,170,767
Commission receivable	160,343	-
Other receivables	43,735	761,654
Inventories	4,255,858	3,260,866
Investment in Flex America	-	1,600,000
Prepaid expenses	2,006,191	1,760,960
Deferred tax asset	426,354	-
TOTAL CURRENT ASSETS	21,940,074	14,644,608
PROPERTY PLANT & EQUIPMENT net of accumulated depreciation	63,895,778	66,618,688
OTHER ASSETS:		
Deferred tax asset	350,746	2,289,486
Intangible assets, net of amortization	58,090	-
Loan costs, net of amortization	270,900	335,134
Unamortized promotional expenses	165,433	-
Other	72,819	700
TOTAL OTHER ASSETS	917,988	2,625,320
TOTAL ASSETS	\$ 86,753,840	\$ 83,888,616

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 12,768,588	\$ 7,908,041
Accrued salaries and wages	385,219	-
Accrued vacation	94,261	-
Other accrued liabilities	747,767	157,297
Line of credit	10,300,000	5,900,000
Current portion of long-term debt	5,094,576	5,743,132
TOTAL CURRENT LIABILITIES	29,390,411	19,708,470
LONG-TERM LIABILITIES:		
Notes payable net of current portion	26,667,218	35,973,121
TOTAL LIABILITIES	56,057,629	55,681,591
STOCKHOLDERS' EQUITY		
Common stock \$5000 stated value; 6400 shares authorized issued and outstanding	32,000,000	32,000,000
Retained deficit	(1,303,789)	(3,792,975)
TOTAL STOCKHOLDERS' EQUITY	30,696,211	28,207,025
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 86,753,840	\$ 83,888,616

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF INCOME AND RETAINED DEFICIT YEARS ENDED MARCH 31, 2015 AND 2014

	2015 <u>US\$</u>	2014 <u>US\$</u>
REVENUES:		
Sales	\$ 130,028,683	\$ 53,368,854
Commission income	<u>597,961</u>	<u>-</u>
TOTAL REVENUES	130,626,644	53,368,854
COST OF SALES	<u>114,963,602</u>	<u>43,611,663</u>
GROSS PROFIT	15,663,042	9,757,191
OPERATING EXPENSES:		
General and administrative	6,946,847	5,016,415
Selling	4,384,464	2,524,817
Depreciation	<u>3,457,063</u>	<u>3,456,438</u>
	14,788,374	12,150,836
INCOME (LOSS) FROM OPERATIONS	874,668	(2,393,645)
OTHER INCOME (EXPENSE)		
Foreign currency loss- realized	(1,807)	(14,476)
Foreign currency gain (loss)- unrealized	4,171,424	(1,535,391)
Amortization	(68,817)	64,302
Interest	(1,017,173)	1,088,864
Interest income	<u>-</u>	<u>2,055</u>
	3,083,627	(394,646)
INCOME BEFORE INCOME TAX BENEFIT (EXPENSE)	3,958,295	(3,941,457)
PROVISION FOR INCOME TAX BENEFIT (EXPENSE)		
Deferred	<u>(1,512,386)</u>	<u>1,428,398</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	2,445,909	(2,513,059)
EXTRORDINARY ITEM- Gain on merger	<u>43,277</u>	<u>-</u>
NET INCOME (LOSS)	2,489,186	(2,513,059)
RETAINED DEFICIT, beginning of period	<u>(3,792,975)</u>	<u>(1,279,916)</u>
RETAINED DEFICIT, end of period	<u>\$ (1,303,789)</u>	<u>\$ (3,792,975)</u>

The accompanying notes are an integral part of these financial statements.



FLEX FILMS (USA) INC

STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2015 AND 2014

	2015 US\$	2014 US\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 2,489,186	\$ (2,513,059)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	3,457,063	3,456,438
Amortization	68,817	64,302
Deferred income taxes	1,512,386	(1,428,398)
Unrealized gain (loss) on foreign currency transactions	(4,171,424)	1,535,391
Bad debts provision	100,000	-
(Increase) decrease in:		
Accounts receivable	(6,850,572)	(2,566,934)
Commission receivable	(160,000)	-
Other receivable	717,919	88,346
Inventory	(994,992)	1,395,921
Prepaid expenses	(245,231)	(1,749,500)
Other assets	(72,119)	700
Increase (decrease) in:		
Accounts payable	4,860,547	(2,809,400)
Accrued salaries	385,219	-
Accrued vacation	94,261	-
Accrued liabilities	590,470	109,372
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,781,530	(4,416,821)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property, plant and equipment	(470,324)	(202,196)
Investment in Flex America, Inc.	-	(1,600,000)
Acquisitions of intangible assets	(62,671)	-
Cash obtained in merger	686,454	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	153,459	(1,802,196)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on loans	(5,399,096)	(3,996,811)
Lines of credit - net	4,400,000	1,300,000
Proceeds of long-term debt	-	9,351,217
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(999,096)	6,654,406
NET INCREASE IN CASH AND CASH EQUIVALENTS	935,893	435,389
CASH AND CASH EQUIVALENTS, March 31, 2014	1,090,361	654,972
CASH AND CASH EQUIVALENTS, March 31, 2015	\$ 2,026,254	\$ 1,090,361

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

Cash paid during the year for:		
Income taxes	\$ 2,378	\$ -
Interest paid	\$ 1,022,960	\$ 1,038,324

SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION:

During the years ended March 31, 2015 and March 31, 2014, the Company had the following non-cash investing activities:

Property acquired in merger	\$ 71,363	-
Property increases due to government incentive shortfall	\$ 238,690	-

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2015 AND 2014

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

Flex Films USA, Inc. (the Company) was organized under the laws of the State of Kentucky on May 26, 2011. The Company is a subsidiary of Uflex Limited a publicly traded Company on the Indian stock exchange through Uflex Limited's wholly owned subsidiary Flex Middle East. Flex Middle East owns 100 percent of the outstanding stock of the Company. The Company operates a flexible packaging films manufacturing facility in Elizabethtown, Kentucky. The Company sells its products to customers in various industries located in North America.

Basis of Accounting

The financial statements of the Company have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash consists of cash on hand and monies held in checking and savings accounts.

Accounts Receivable

Accounts receivable are recorded at estimated value, net of an allowance for expected losses. Accounts receivable are not interest earning. The Company extends credit to customers in the normal course of business and generally does not require collateral. The Company uses the allowance method to account for doubtful accounts receivable. The Company evaluates all accounts on a periodic basis. At March 31, 2015 and 2014, management had established an allowance of \$100,000 and \$-0- based on review of individual accounts.

Inventory

Inventory includes goods awaiting sales (finished goods) and goods being consumed directly or indirectly into production (work in process, supplies and raw materials). Raw materials are stated at the lower of cost or market, based on first in first out method, arrived at after including freight inward and other expenses directly attributed to the lower of acquisition or net realizable value. Work-in-progress and finished goods are stated at the lower of cost or market, based on weighted average method, arrived at after including expenses directly attributed to production costs or net realizable value. Stores, fuel and packaging materials are stated at costs, based on the first-in, first-out method or net realizable value.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and other acquisition costs such as installation costs, freight charges, transportation, duties, exchange rates etc. Depreciation is computed using the straight-line method over the asset's estimated useful life. Depreciation is calculated from the last day of the month in which the asset is capitalized.

Estimated useful lives are as follows:

Factory Buildings	30 years
Residential Building	25 years
Plant & Machinery	7-21 years
Office Furniture and Equipment	3 - 7 years
Motor Vehicles	5 - 7 years

Revenue Recognition

The Company recognizes revenue when products are shipped to customers. At the time of shipment, products have transferred title and accounts receivable can be measured with reasonable precision. No sales taxes are included in sales or cost of goods sold.

Advertising Costs

Advertising costs are nondirect-response and expensed as incurred. Total advertising costs for the years ended March 31, 2015 and 2014 were \$206,531 and \$23,784.



FLEX FILMS (USA) INC

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2015 AND 2014

Shipping and Handling Costs

The Company reports shipping and handling costs as part of selling expenses.

Foreign Currency Transactions

The Company has a note payable to KBC Bank and a related deposit held with KBC which are denominated in Euros. At the end of each period the Company adjusts the unpaid principal balance in Euros to the unpaid principal balance and value of the deposit in United States dollars based on the exchange rate on the last day of the financial period. The Company records an unrealized foreign currency gain or loss as a result of the adjustment to the unpaid principal balance and deposit amount as of the last date of the financial period.

At the time principal payments are disbursed to the bank the Company records a realized foreign currency gain or loss based on the amount disbursed which is less or greater than the amount stated in United States dollars on the origination date of the loan.

Although the effect has not been determined, changes in the exchange rate subsequent to year-end could have an effect on unsettled foreign currency transactions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and revenues and expenses. Actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through May 6, 2015 which is the date the financial statements were available to be issued.

NOTE 2 - INVENTORY

Inventory consists of the following:

CATEGORY	MARCH 31, 2015	MARCH 31, 2014
Raw materials	\$ 1,429,875	\$ 995,316
Miscellaneous	406,686	236,282
Work in process	509,539	1,440,522
Finished goods	1,909,758	588,746
	<u>\$ 4,255,858</u>	<u>\$ 3,260,866</u>

NOTE 3 - PREPAID PROMOTIONAL COSTS

The Company prepaids promotional costs related to its annual trade show. The Company believes the show provides an economic benefit for a period of 12 months. Accordingly, costs have been expensed over 12 months. For the year ended March 31, 2015, the Company prepaid \$283,600 and expensed \$118,167. At March 31, 2015, the prepaid costs were \$165,433. There was no prepaid amount at March 31, 2014.

NOTE 4 - DEBT SERVICE RESERVE ACCOUNT

This amount represents a security deposit with the KBC Bank as provided in the Term Loan Agreement entered into between the Company and the bank dated July 20, 2012 and termed as Debt Service Coverage Account (DSRA). Under the agreement an amount is to be held in the DSRA account and shall be equivalent to the next due installment along with interest payable on the outstanding loan until the date of installment. At March 31, 2015 and 2014, the amounts held by KBC were \$1,251,371 and \$1,646,542.

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2015 AND 2014
NOTE 5 - PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment consist of the following:

CATEGORY	MARCH 31, 2015	MARCH 31, 2014
Plant and machinery	\$ 51,492,869	\$ 50,906,118
Factory buildings	18,148,846	18,047,952
Office furniture and equipment	1,482,407	1,455,182
Residential building	197,033	197,033
Motor vehicles	93,767	28,169
Land	25,010	25,010
	71,439,932	70,659,464
Accumulated depreciation	(7,544,154)	(4,040,776)
	\$ 63,895,778	\$ 66,618,688

For the years ended March 31, 2015 and 2014 depreciation expense was \$3,457,063 and \$3,456,438.

NOTE 6 - LINE OF CREDIT

The Company has a \$14,500,000 line of credit with Chase Bank with interest paid monthly at a variable rate tied to LIBOR. The effective interest rate at March 31, 2015 and 2014 was 3.18 percent and 3.16 percent. The outstanding balance at March 31, 2015 and 2014 was \$10,300,000 and \$5,900,000. The line of credit is secured by the Company's accounts receivable and inventory, which at March 31, 2015 were \$13,021,339 and \$4,255,858.

NOTE 7 - NOTES PAYABLE

Long-term debt consists of the following:

	OUTSTANDING AT	
	MARCH 31 2015	MARCH 31 2014
Note payable to Toyota Financial Services for the purchase of an automobile; collateralized by the automobile; payable in thirty-six monthly installments in the amount of \$644, all principal, with the final payment due September 3, 2014.	-	3,217
Note payable to Chase Bank, paid in monthly installments, with a variable rate based on LIBOR. At March 31, 2015 the effective interest rate was 3.68 percent. The loan is to be repaid in monthly installments of \$233,333 with the final payment due in July 2018. The loan is secured by the company's building and certain plant and machinery.	9,333,333	12,133,334
Note payable to KBC Bank, payable in semi-annual principal payments of \$1,147,288. Interest is paid semi-annually at a variable rate tied to LIBOR. At March 31, 2015 the effective interest rate was 1.38 percent. The final payment is due July 2021. The terms of the loan are stated in Euros and the company bears foreign currency exchange risk on this loan. The note is secured by certain pieces of the company's machinery. Amounts are based on the Euro and United States dollar conversion rates at March 31, 2015.	14,928,461	22,079,702
Note payable to Flex Middle East, to be repaid by three years from the date of the draw plus accrued interest. The Company can draw up to \$8,000,000 on the loan. The Company is currently accruing interest monthly at the stated annual interest rate of .25 percent. The loan is unsecured. The final payment is due February 2017.	7,500,000	7,500,000
Total of Long-Term debt	31,761,794	41,716,253
Less: Current Portion	5,094,576	5,743,132
	\$ 26,667,218	\$ 35,973,121



FLEX FILMS (USA) INC

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2015 AND 2014

The maturities are as follows:

FISCAL YEAR ENDING MARCH 31	AMOUNT
2016	\$ 5,094,576
2017	12,594,576
2018	5,094,576
2019	3,227,909
2020	2,294,576
Thereafter	3,455,581
	\$ 31,761,794

NOTE 8 - INCOME TAXES

The provision for deferred income tax benefit (expense) on the income statement consists of the following:

	YEAR ENDED MARCH 31, 2015	YEAR ENDED MARCH 31, 2014
Deferred benefit (expense)-federal	\$ (1,285,528)	\$ 1,214,139
Deferred benefit (expense)- state	(226,858)	214,259
Total	\$ (1,512,386)	\$ 1,428,398

Deferred tax assets and liabilities consist of the following:

	MARCH 31, 2015	MARCH 31, 2014
Deferred Tax Asset	6,327,786	5,085,099
Deferred Tax Liability	(5,550,686)	(2,795,613)
Deferred Tax Asset	\$ 777,100	\$ 2,289,486

The principal source of these differences relates to timing differences because of methods net operating losses, start-up costs, and depreciation.

The Company has federal and state net operating loss carry forwards in the total amount of \$14,502,056. For the years ended March 31, 2015, 2014 and 2013, the Company has net operating losses in the amounts of \$4,289,120, \$8,020,687 and \$2,181,543 which are set to expire March 31, 2035, March 31, 2034, and March 31, 2033.

The Company's federal and state income tax returns for the years ended March 31, 2015, 2014, 2013 and 2012 are subject to examination by the applicable taxing authorities.

Uncertain Tax Positions

The Company follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an enterprise's financial statements.

The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of March 31, 2015 and 2014, the Company had no uncertain tax positions that qualify for either recognition or disclosure in the Company's financial statements. The Company's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the financial statements. No interest and penalties were recorded during the years ended March 31, 2015 and 2014.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Company is part of a controlled group and engages in various business transactions with its affiliated companies. Related party amounts at period end and for the period are summarized below.

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2015 AND 2014

The Company had accounts receivable from related parties in the following amounts at:

RELATED PARTY	MARCH 31, 2015	MARCH 31, 2014
Flex Americas S.A. de CV, Mexico	\$ 13,089	\$ 14,250
Flex P Films Egypt	165,266	-

The Company had accounts payable from related parties in the following amounts at:

RELATED PARTY	MARCH 31, 2015	MARCH 31, 2014
Flex Americas S.A. de CV, Mexico	\$ 4,685,286	\$ 89,628
Uflex Limited Films Division	794,397	281,125
Flex P Films Egypt	202,437	-
Flex Middle East FZE	47,621	-

The Company recognized revenues from related parties in the following amounts for the years ended:

RELATED PARTY	MARCH 31, 2015	MARCH 31, 2014
Flex Americas S.A. de CV, Mexico	\$ 464,826	\$ -
Flex P Films Egypt	219,053	-

The Company recognized expenses from related parties in the following amounts for the years ended:

RELATED PARTY	MARCH 31, 2015	MARCH 31, 2014
Flex Americas S.A. de CV, Mexico	\$ 68,660,847	\$ -
Uflex Limited Films Division	6,668,909	2,367,968
Flex Middle East FZE	321,960	-
Flex P Films Egypt	224,239	-

As disclosed in Note 7, the Company has an outstanding balance on a note payable with Flex Middle East. The outstanding balance at March 31, 2015 and March 31, 2014 is \$7,500,000 and \$7,500,000. For the years ended March 31, 2015 and March 31, 2014 the Company recognized \$18,750 and 5,058 of interest expense.

NOTE 10 - FLEX AMERICA, INC. MERGER

On April 1, 2014, Flex America, Inc. was merged with the Company. Flex America, Inc. was a constructively 100 percent owned subsidiary of Uflex Limited. Both entities were under common control of Uflex Limited and consequently the assets, liabilities and operating results of Flex America, Inc. have not been combined with those of Flex Films (USA) for the year ended March 31, 2014. Flex America, Inc. was a flexible packaging wholesaler.

The net assets of Flex America, Inc. were \$43,277 greater in value than the purchase price and that gain has been reflected in the income statement. As part of the merger the Company obtained two vehicles and computer equipment, which have values insignificant to these financial statements. The values of these assets were determined by prices that could be obtained in the current market, which approximated the carrying values.

Flex America reported assets of \$14,063,358, liabilities of \$12,420,081 at March 31, 2014 and net income of \$54,623 for the year then ended. These amounts were not audited by our current auditors and not included in this report.

NOTE 11 - PENSION EXPENSE

In 2013, the Company adopted a 401(k) retirement plan for its employees. There was no cost for 2015 or 2014.



FLEX FILMS (USA) INC.
Subsidiary Company of FLEX Middle East FZE