



FLEX FILMS (USA) INC.

*Subsidiary Company of
FLEX Middle East FZE*



FINANCIAL STATEMENTS 2015 - 2016



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 accompanying financial statements of Flex Films (USA) Inc. (a Kentucky Corporation), which comprise the balance sheets as of March 31, 2016 and 2015 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 procedure selected depend on the auditor's judgement, 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 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, 2016 and 2015, and the results of operation 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
April 29, 2016



FLEX FILMS (USA) INC

BALANCE SHEETS MARCH 31, 2016 AND 2015

	2016 US\$	2015 US\$
ASSETS		
CURRENT ASSETS:		
Cash	\$ 677,195	\$ 2,026,254
Accounts receivable- trade, net of allowance for doubtful accounts	14,865,662	13,021,339
Commission receivable	-	160,343
Other receivables	43,735	43,735
Inventories	4,609,897	4,255,858
Prepaid expenses	1,939,359	2,006,191
Deferred tax asset	511,451	426,354
TOTAL CURRENT ASSETS	22,647,299	21,940,074
PROPERTY PLANT & EQUIPMENT net of accumulated depreciation	60,989,800	63,895,778
OTHER ASSETS:		
Deferred tax asset	-	350,746
Intangible assets, net of amortization	39,419	58,090
Loan costs, net of amortization	206,686	270,900
Unamortized promotional expenses	-	165,433
Other	2,080	72,819
TOTAL OTHER ASSETS	248,185	917,988
TOTAL ASSETS	\$ 83,885,284	\$ 86,753,840
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 16,691,215	\$ 12,768,588
Accrued salaries and wages	389,264	385,219
Accrued vacation	75,751	94,261
Other accrued liabilities	998,427	747,767
Line of credit	8,340,033	10,300,000
Current portion of long-term debt	10,734,841	5,094,576
TOTAL CURRENT LIABILITIES	37,229,531	29,390,411
LONG-TERM LIABILITIES:		
Deferred tax liability	308,635	-
Notes payable net of current portion	14,690,117	26,667,218
TOTAL LIABILITIES	52,228,283	56,057,629
STOCKHOLDERS' EQUITY		
Common stock \$5000 stated value; 6400 shares authorized issued and outstanding	32,000,000	32,000,000
Retained deficit	(342,999)	(1,303,789)
TOTAL STOCKHOLDERS' EQUITY	31,657,001	30,696,211
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 83,885,284	\$ 86,753,840

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

STATEMENTS OF INCOME AND RETAINED DEFICIT YEARS ENDED MARCH 31, 2016 AND 2015

	2016 US\$	2015 US\$
REVENUES:		
Sales	116,637,340	\$ 130,028,683
Commission income	290,715	597,961
TOTAL REVENUES	116,928,055	130,626,644
COST OF SALES	99,669,480	114,963,602
GROSS PROFIT	17,258,575	15,663,042
OPERATING EXPENSES:		
General and administrative	5,778,631	6,946,847
Selling	4,838,097	4,384,464
Depreciation	3,455,669	3,457,063
	14,072,397	14,788,374
INCOME (LOSS) FROM OPERATIONS	3,186,178	874,668
OTHER INCOME (EXPENSE)		
Foreign currency loss- realized	377,553	(1,807)
Foreign currency gain (loss)- unrealized	(1,116,544)	4,171,424
Amortization	(75,215)	(68,817)
Interest	(836,898)	(1,017,173)
	(1,651,104)	3,083,627
INCOME BEFORE INCOME TAX BENEFIT (EXPENSE)	1,535,074	3,958,295
PROVISION FOR INCOME TAX BENEFIT (EXPENSE)		
Deferred	(574,284)	(1,512,386)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	960,790	2,445,909
EXTRORDINARY ITEM- Gain on merger	-	43,277
NET INCOME	960,790	2,489,186
RETAINED DEFICIT, beginning of period	(1,303,789)	(3,792,975)
RETAINED DEFICIT, end of period	\$ (342,999)	\$ (1,303,789)

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



FLEX FILMS (USA) INC

STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2016 AND 2015

	2016 US\$	2015 US\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 960,790	\$ 2,489,186
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	3,455,669	3,457,063
Amortization of intangible assets and promotional costs	240,648	68,817
Deferred income taxes	574,284	1,512,386
Unrealized gain (loss) on foreign currency transactions	1,116,544	(4,171,424)
Bad debts provision	60,000	100,000
(Increase) decrease in:		
Accounts receivable	1,904,323	(6,850,572)
Commission receivable	160,343	(160,000)
Other receivable	-	717,919
Inventory	354,039	(994,992)
Prepaid expenses	66,832	(245,231)
Other assets	70,739	(72,119)
Increase (decrease) in:		
Accounts payable	3,922,627	4,860,547
Accrued salaries	4,045	385,219
Accrued vacation	(18,510)	94,261
Accrued liabilities	250,660	590,470
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,606,309	1,781,530
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property, plant and equipment	(549,694)	(470,324)
Acquisitions of intangible assets	-	(62,671)
Cash obtained in merger	-	686,454
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(549,694)	153,459
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on loans	(7,445,707)	(5,399,096)
Lines of credit - net	(1,959,967)	4,400,000
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(9,405,674)	(999,096)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,349,059)	935,893
CASH AND CASH EQUIVALENTS, Beginning of Year	2,026,254	1,090,361
CASH AND CASH EQUIVALENTS, End of Year	\$ 677,195	\$ 2,026,254
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash paid during the year for:		
Income taxes	\$ 8,187	\$ 2,378
Interest paid	\$ 828,085	\$ 1,022,960
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION:		
During the years ended March 31, 2016 and March 31, 2015, 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, 2016 AND 2015

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. The Company maintains its cash balances in multiple financial institutions. The balance are insured up to \$ 250,000.

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, 2016 and 2015, management had established an allowance of \$ 160,000 and \$ 100,000 based on a \$ 5,000 monthly allocation and 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 Equipment	3 - 7 years
Furniture & Fixtures	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, 2016 and 2015 were \$ 233,680 and \$ 206,531.



FLEX FILMS (USA) INC

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

Promotional Costs

During fiscal year 2015, the Company capitalized promotional costs related to a tradeshow that management believed would provide economic benefit of one year. Accordingly, costs were amortized over 12 months. At March 31, 2016 and 2015 unamortized costs were \$-0- and \$ 165,433. During the years ended March 31, 2016 and 2015, the company amortized \$ 165,433 and \$ 118,167 to expense.

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 r 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 effect 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 x, 2016 which is the date the financial statements were available to be issued.

2. INVENTORY

Inventory consists of the following:

CATEGORY	MARCH 31, 2016	MARCH 31, 2015
Raw materials	\$ 782,661	\$ 1,429,875
Miscellaneous	187,021	406,686
Work in process	445,772	509,539
Finished goods	3,194,443	1,909,758
	\$ 4,609,897	\$ 4,255,858

3. 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, 2016 and 2015, the amounts held by KBC were \$ 1,296,487 and \$ 1,251,372.

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015
4. PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment consist of the following:

CATEGORY	MARCH 31, 2016	MARCH 31, 2015
Plant and machinery	\$ 51,703,575	\$ 51,492,869
Factory buildings	18,148,846	18,148,846
Furniture and fixtures	390,250	390,250
Office equipment	1,189,201	1,092,157
Residential building	197,033	197,033
Motor vehicles	335,711	93,767
Land	25,010	25,010
	71,989,626	71,439,932
Accumulated depreciation	(10,999,825)	(7,544,154)
	\$ 60,989,801	\$ 63,895,778

For the years ended March 31, 2016 and 2015 depreciation expense was \$ 3,455,669 and \$ 3,457,063.

5. OPERATING LEASE

The Company has entered into a lease with APR Properties Limited to provide housing for certain employees that expires March 31, 2017. Under the terms of the lease the Company is rent monthly in the amount of \$6,000. For the year ended March 31, 2016, the Company incurred \$72,000 of expense during the year. For the year ended March 31, 2017 the Company is committed to pay \$72,000.

6. LINE OF CREDIT

The Company has a \$16,500,000 line of credit with Chase Bank with interest paid monthly at a variable rate tied to LIBOR. The effective interest rate at March 31, 2016 and 2015 was 3.43 percent and 3.18 percent. The outstanding balance at March 31, 2016 and 2015 was \$8,340,033 and \$10,300,000. The line of credit is secured by the Company's accounts receivable and inventory, which at March 31, 2016 were \$15,025,662 and \$4,609,897.

7. NOTES PAYABLE

Long-term debt consists of the following:

	OUTSTANDING AT	
	MARCH 31 2016	MARCH 31 2015
Note payable to Chase Bank, paid in monthly installments, with a variable rate based on LIBOR. At March 31, 2016 the effective interest rate was 3.93 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.	\$ 6,533,333	\$ 9,333,333
Note payable to KBC Bank, payable in semi-annual principal payments of \$1,217,421. Interest is paid semi-annually at a variable rate tied to LIBOR. At March 31, 2016 the effective interest rate was 1.17 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, 2016.	13,391,625	14,928,461
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 balance is due November 2016.	5,500,000	7,500,000
Total of Long-Term debt	25,424,958	31,761,794
Less: Current Portion	10,734,841	5,094,576
	\$ 14,690,117	\$ 26,667,218



FLEX FILMS (USA) INC

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

The maturities are as follows:

FISCAL YEAR ENDING MARCH 31	AMOUNT
2017	10,734,841
2018	5,234,841
2019	3,368,174
2020	2,434,841
2021	2,434,841
Thereafter	1,217,420
	\$ 25,424,958

8. INCOME TAXES

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

	YEAR ENDED MARCH 31, 2016	YEAR ENDED MARCH 31, 2015
Deferred benefit (expense)-federal	\$ 488,141	\$ 1,285,528
Deferred benefit (expense)- state	86,143	226,858
Total	\$ 574,284	\$ 1,512,386

Deferred tax assets and liabilities consist of the following:

	MARCH 31, 2016	MARCH 31, 2015
Deferred Tax Asset	\$ 6,353,094	6,327,786
Deferred Tax Liability	(6,150,278)	(5,550,686)
Deferred Tax Asset	\$ 202,816	\$ 777,100

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 \$14,669,472. For the years ended March 31, 2016, 2015, 2014, 2013 and 2012 the Company has net operating losses in the amounts of \$87,829, \$ 4,368,707, \$8,020,687, \$2,181,543, and \$ 10,706 which are set to expire March 31, 2036, March 31, 2035, 2034, 2033, and 2032.

The Company's federal and state income tax returns for the years ended March 31, 2016, 2015, 2014 and 2013 are subject to examination by the applicable taxing authorities.

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.

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

RELATED PARTY	MARCH 31, 2016	MARCH 31, 2015
Flex Americas S.A. de CV, Mexico	\$ -	\$ 13,089
Flex P Films Egypt	-	165,266

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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

RELATED PARTY	MARCH 31, 2016	MARCH 31, 2015
Flex Americas S.A. de CV, Mexico	\$ 9,322,919	\$ 4,685,286
Uflex Limited Films Division	1,218,426	794,397
Uflex Limited Pet Chips Division	700,730	-
Flex P Films Egypt	3,194	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, 2016	MARCH 31, 2015
Flex Americas S.A. de CV, Mexico	\$ 348,440	\$ 464,826
Flex P Films Egypt	1,200	219,053

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

RELATED PARTY	MARCH 31, 2016	MARCH 31, 2015
Flex Americas S.A. de CV, Mexico	\$ 53,254,163	\$ 68,660,847
Uflex Limited Films Division	4,574,638	6,668,909
Uflex Limited Pet Chips Division	866,700	-
Flex Middle East FZE	237,467	321,960
Flex P Films Egypt	53,595	224,239

As disclosed in note 6, the Company has an outstanding balance on a note payable with Flex Middle East. The outstanding balance at March 31, 2016 and March 31, 2015 was \$5,500,000 and \$7,500,000. For the years ended March 31, 2016 and March 31, 2015 the Company recognized \$18,274 and \$18,750 of interest expense.

10. PENSION EXPENSE

In 2013, the Company adopted a 401(k) retirement plan for its employees. The Company does not match employee contributions. For the years ended March 31, 2016 and March 31, 2015, the company incurred costs of \$4,500 and \$4,250 to administer the plan.



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