



FLEX FILMS (USA) INC.

*Subsidiary Company of
FLEX Middle East FZE*



FINANCIAL STATEMENTS 2016 - 2017



CONTENTS

Independent Auditor's Report	1
------------------------------	---

BASIC FINANCIAL STATEMENTS

Balance Sheets	2
----------------	---

Statements of Income and Retained Earnings	3
--	---

Statements of Cash Flows	4
--------------------------	---

Notes to Financial Statements	5-9
-------------------------------	-----

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS

and Stockholder 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, 2017 and 2016 and the related statements of income and retained earnings, 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, 2017 and 2016, 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 1, 2017



FLEX FILMS (USA) INC

BALANCE SHEETS MARCH 31, 2017 AND 2016

	2017	2016
	US\$	US\$
ASSETS		
CURRENT ASSETS :		
Cash	139,195	677,195
Accounts receivable-trade , net of allowance for doubtful accounts	13,201,293	14,865,662
Commission receivable	216,981	-
Other receivables	43,735	43,735
Inventories	4,960,640	4,609,897
Prepaid expenses	1,672,381	1,939,359
Deferred tax asset	530,350	511,451
TOTAL CURRENT ASSETS	20,764,575	22,647,299
PROPERTY, PLANT & EQUIPMENT , net of accumulated depreciation	57,554,870	60,989,800
OTHER ASSETS:		
Intangible assets, net of amortization	28,419	39,419
Other	1,360	2,080
TOTAL OTHER ASSETS	29,779	41,499
TOTAL ASSETS	78,349,224	83,678,598
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	18,429,433	\$16,691,215
Accrued salaries and wages	114,396	389,264
Accrued vacation	106,097	75,751
Other accrued	747,171	998,427
Line of credit	7,340,033	8,340,033
Current portion of long-term debt	5,027,031	10,734,841
TOTAL CURRENT LIABILITIES	31,764,161	37,229,531
LONG-TERM LIABILITIES:		
Deferred tax liability	1,237,410	308,635
Notes payable, net of current portion	12,445,387	14,483,431
TOTAL LIABILITIES	45,446,958	52,021,597
STOCKHOLDER'S EQUITY		
Common stock, \$5,000 stated value; 6,400 shares authorized, issued and outstanding	32,000,000	32,000,000
Retained earnings (deficit)	902,266	(342,999)
TOTAL STOCKHOLDER'S EQUITY	32,902,266	31,657,001
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	78,349,224	83,678,598

The accompanying note are integral part of these financial statements.

STATEMENT OF INCOME AND RETAINED EARNINGS YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
	US\$	US\$
	<hr/>	<hr/>
REVENUES :		
Sales	112,166,835	116,637,340
Commission income	228,381	290,715
	<hr/>	<hr/>
TOTAL REVENUES	112,395,216	116,928,055
COST OF SALES	94,062,072	99,669,480
	<hr/>	<hr/>
GROSS PROFIT	18,333,144	17,258,575
OPERATING EXPENSES:		
General and administrative	6,698,720	5,778,631
Selling	5,681,827	4,838,097
Depreciation	3,605,770	3,455,669
	<hr/>	<hr/>
	15,986,317	14,072,397
	<hr/>	<hr/>
INCOME FROM OPERATIONS	2,346,827	3,186,178
OTHER INCOME (EXPENSES)		
Foreign currency gain-realized	438,552	377,553
Foreign currency gain/(loss) - unrealized	214,879	(1,116,544)
Amortization	(11,000)	(11,000)
Interest	(834,117)	(901,113)
	<hr/>	<hr/>
	(191,686)	(1,651,104)
	<hr/>	<hr/>
INCOME BEFORE INCOME TAX EXPENSE	2,155,141	1,535,074
PROVISION FOR INCOME TAX EXPENSE		
Deferred	909,876	574,284
	<hr/>	<hr/>
NET INCOME	1,245,265	960,790
RETAINED DEFICIT, beginning of period	(342,999)	(1,303,789)
	<hr/>	<hr/>
RETAINED EARNINGS (DEFICIT), end of period	902,266	(342,999)
	<hr/> <hr/>	<hr/> <hr/>

The accompanying note are integral part of these financial statements.

STATEMENT OF CASH FLOWS YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
	US\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES :		
Net income	1,245,265	960,790
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation	3,605,770	3,455,669
Amortization of intangible assets and promotional costs	72,000	240,648
Deferred income taxes	909,876	574,284
Unrealized gain (loss) on foreign currency transactions	(214,879)	1,116,544
Bad debts provision	60,000	60,000
(Increase) decrease in :		
Accounts receivable	1,604,369	(1,904,323)
Commission receivable	(216,981)	160,343
Inventory	(350,743)	(354,039)
Prepaid expenses	266,978	66,832
Other assets	720	70,739
Increase (decrease) in :		
Accounts payable	1,738,218	3,922,627
Accrued salaries	(274,868)	4,045
Accrued vacation	30,346	(18,510)
Accrued liabilities	(251,256)	250,660
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,224,815	8,606,309
CASH FLOWS FROM INVESTING ACTIVITIES :		
Acquisitions of property, plant and equipment	(170,840)	(549,694)
NET CASH USED BY INVESTING ACTIVITIES	(170,840)	(549,694)
CASH FLOWS FROM FINANCING ACTIVITIES :		
Principal payments on loans	(7,591,975)	(7,445,707)
Lines of credit - net	(1,000,000)	(1,959,967)
NET CASH USED BY FINANCING ACTIVITIES	(8,591,975)	(9,405,674)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(538,000)	(1,349,059)
CASH AND CASH EQUIVALENTS, beginning of year	677,195	2,026,254
CASH AND EQUIVALENTS, end of year	139,195	677,195
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash paid during the year for:		
Income taxes	19,849	8,187
Interest paid	736,752	828,085

The accompanying note are integral part of these financial statements.

NOTE ONE FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

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 balances 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, 2017 and 2016, management had established an allowance of \$220,000 and \$160,000 based on a \$5,000 monthly allocation and review of individual accounts.

Inventory and Cost of Goods Sold

Inventory includes goods awaiting sales (finished goods) and goods being consumed directly or indirectly into production (work in process, miscellaneous 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. Miscellaneous supplies inventory items such as stores, fuel and packaging materials are stated at costs, based on the first-in, first-out method or net realizable value. The Company charges handling costs to cost of good sold. During the years ended March 31, 2017 and 2016, the Company incurred \$3,524,184 and \$3,365,108 in handling costs.

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. Consignment revenue is recongnized the earlier of when used or when contractual billing date is reached. No sales taxes are included in sales or cost of goods sold.

Advertising Costs

Advertising costs are nondired-response and expensed as incurred. Total advertising costs for the years ended March 31, 2017 and 2016 were \$119,985 and \$233,680.

NOTE ONE FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

Promotional Costs

The Company capitalizes and amortizes promotional costs related to certain tradeshows the Company believes provide an economic benefit of one year. Accordingly, costs are amortized over 12 months. At March 31, 2017 and 2016 unamortized costs were \$210,087 and \$-0-. During the years ended March 31, 2017 and 2016, the company amortized \$61,000 and \$165,433 to expense. Unamortized promotional costs are included in prepaid expenses.

Shipping Costs

During the years ended March 31, 2017 and 2016, the Company charged \$3,059,993 and \$2,826,999 of shipping costs to 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 1, 2017 which is the date the financial statements were available to be issued.

2. INVENTORY

Inventory consists of the following:

CATEGORY	MARCH 31, 2017 US\$	MARCH 31, 2016 US\$
Raw materials	1,293,237	782,661
Miscellaneous	214,754	187,021
Work in process	275,412	445,772
Finished goods	3,177,237	3,194,443
	4,960,640	4,609,897

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, 2017 and 2016, the amounts held by KBC were \$1,143,514 and \$1,296,487.

NOTE ONE FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016
4. PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment consist of the following:

CATEGORY	MARCH 31, 2017 US\$	MARCH 31, 2016 US\$
Plant and machinery	51,742,262	51,703,575
Factory buildings	18,180,367	18,148,846
Office equipment	1,289,832	1,189,200
Motor vehicles	390,250	390,250
Residential building	335,711	335,711
Land	197,033	197,033
	25,010	25,010
	72,160,465	71,989,625
Accumulated depreciation	(14,605,595)	(10,999,825)
	57,554,870	60,989,800

For the years ended March 31, 2017 and 2016 depreciation expense was \$3,605,770 and \$3,455,669.

5. 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, 2017 and 2016 was 3.18 percent and 3.43 percent. The outstanding balance at March 31, 2017 and 2016 was \$7,340,033 and \$8,340,033. The line of credit is secured by the Company's accounts receivable and inventory, which at March 31, 2017 were \$13,421,293 and \$4,960,640.

6. NOTES PAYABLE

Long-term debt consists of the following :

	OUTSTANDING AT	
	MARCH 31, 2017 US\$	MARCH 31, 2016 US\$
Note payable to Chase Bank, paid in monthly installments, with a variable rate based on LIBOR. At March 31, 2017 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.	3,733,333	6,533,333
Note payable to KBC Bank, payable in semi-annual principal payments of \$1,145,587. Interest is paid semi-annually at a variable rate tied to LIBOR. At March 31, 2017 the effective interest rate was 1.06 percent. The final payment is due July 2021. The note is secured by certain pieces of the company's machinery. The terms of the loan are stated in Euros and the company bears foreign currency exchange risk on this loan. Amounts are based on the Euro and United States dollar conversion rates at March 31, 2017 and 2016.	10,310,281	13,391,625
Note payable to Flex Middle East, originally 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. During the year ended March 31, 2017, the note was extended for an additional three years. The balance is due is on Novembers, 2019.	3,500,000	5,500,000
Total of Long-term debt	17,543,614	25,424,958
Less: Unamortized loan costs	(71,196)	(206,686)
Long-term debt, less unamortized loan costs	17,472,418	25,218,272
Less: Current portion	(5,027,031)	(10,734,841)
	12,445,387	14,483,431

NOTE ONE FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016

The maturities are as follows :

FISCAL YEAR ENDING MARCH 31	AMOUNT US\$
2018	5,027,031
2019	3,217,456
2020	5,791,174
2021	2,291,174
2022	1,145,583
	<u><u>17,472,418</u></u>

During the fiscal year ended March 31, 2017, the Company retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Long-term debt as of March 31, 2016 was previously reported on the balance sheet as \$25,494,958 with the associated \$206,686 included in other assets. Amortization of the debt issuance costs is reported as interest expense on the income statement.

7. INCOME TAXES

The provision for deferred income tax expense on the income statement consists of the following

	YEAR ENDED MARCH 31, 2017 US\$	YEAR ENDED MARCH 31, 2016 US\$
Deferred expense-federal	773,395	488,141
Deferred expense-states	136,481	86,143
Total	<u><u>909,876</u></u>	<u><u>574,284</u></u>

Deferred tax assets and liabilities consist of the following:

	MARCH 31, 2017 US\$	MARCH 31, 2016 US\$
Deferred Tax Asset	530,350	511,451
Deferred Tax Liability	(1,237,410)	(308,635)
Deferred Tax Asset (Liability), net	<u><u>(707,060)</u></u>	<u><u>202,816</u></u>

The principal source of these differences relates to timing differences because of net operating losses, foreign currency transactions, and depreciation.

The Company has federal and state net operating loss carry forwards. Net operating losses expire 20 years from the year generated. Federal net operating losses available for carryforward are as follows:

FISCAL YEAR ENDING MARCH 31	NET OPERATING LOSS GENERATED US\$
2012	10,706
2013	2,181,543
2014	8,020,687
2015	4,296,707
2016	76,804
2017	490,568
Total	<u><u>15,077,015</u></u>

The Company's federal and state income tax returns for the years ended March 31, 2017, 2016, 2015 and 2014 are subject to examination by the applicable taxing authorities

NOTE ONE FINANCIAL STATEMENTS MARCH 31, 2017 AND 2016
8. 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 receivables from related parties in the following amounts at:

RELATED PARTY	MARCH 31, 2017 US\$	MARCH 31, 2016 US\$
Flex Americas S.A. de CV, Mexico	216,981	-
Flex Middle East	15,485	-

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

RELATED PARTY	MARCH 31, 2017 US\$	MARCH 31, 2016 US\$
Flex Americas S.A. de CV, Mexico	9,781,434	9,322,919
Uflex Limited Films Division	1,216,348	1,218,426-
Uflex Limited Pet Chips Division	208,037	700,730
Flex Middle East	-	3,194

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

RELATED PARTY	MARCH 31, 2017 US\$	MARCH 31, 2016 US\$
Flex Americas S.A. de CV, Mexico	306,614	\$ 348,440
Flex Middle East FZE	-	1,200-

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

RELATED PARTY	MARCH 31, 2017 US\$	MARCH 31, 2016 US\$
Flex Americas S.A. de CV, Mexico	43,346,401	53,254,163
Uflex Limited Films Division	4,944,979	4,574,638
Uflex Limited Pet Chips Division	1,765,484	866,700
Flex P Films Egypt	1,393	53,595
Flex Middle East FZE	-	237,467

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, 2017 and March 31, 2016 was \$3,500,000 and \$5,500,000. For the years ended March 31, 2017 and March 31, 2016 the Company recognized \$9,534 and \$18,274 of interest expense.

9. 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, 2017 and March 31, 2016, the company incurred costs of \$4,800 and \$4,500 to administer the plan

10. WAGE INCENTIVE PROGRAMS

During the years ended March 31, 2017 and 2016 the Company earned \$236,352 and \$237,430 as a part of government hiring incentive programs. Those amounts reduced salary costs.



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