



# **FLEX FILMS (USA) INC.**

*Subsidiary Company of  
FLEX Middle East FZE*



## **FINANCIAL STATEMENTS 2019 - 2020**



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## INDEPENDENT AUDITOR'S REPORT

### The Board of Directors and Stockholder

Flex Films (USA) Inc.  
Elizabethtown, Kentucky

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Flex Films (USA), Inc., which comprise the balance sheet as of March 31, 2020 and 2019, 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 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 audits. We conducted our audits 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 Flex Films (USA) Inc. as of March 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### EMPHASIS OF MATTER

As discussed in Note 1, Flex Films (USA), Inc. adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers and Accounting Standards Update 2016-18, Statement of Cash Flows – Restricted Cash. Our opinion is not modified with respect to this matter.

Crowe LLP

A handwritten signature in black ink that reads "Crowe LLP".

Lexington, Kentucky  
June 4, 2020

**BALANCE SHEETS MARCH 31, 2020 AND 2019**

	2020 US\$	2019 US\$
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	985,004	755,230
Restricted cash	1,194,039	1,230,163
Accounts receivable, net	18,848,978	24,162,168
Contract assets	5,168,236	-
Other receivables	52,840	110,883
Inventories	4,355,338	11,699,687
Prepaid expenses	446,630	467,351
Related party note receivable	2,000,000	-
Total Current Assets	<u>33,051,065</u>	<u>38,425,482</u>
Property, Plant and Equipment, Net	50,265,662	53,408,322
Other Assets	88,111	68,454
<b>Total Assets</b>	<u><u>83,404,838</u></u>	<u><u>91,902,258</u></u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	18,826,130	31,524,770
Accrued expenses	641,979	591,203
Line of credit	6,807,533	5,807,533
Current portion of note payable	2,359,173	2,398,970
Total current liabilities	<u>28,634,815</u>	<u>40,322,476</u>
Long-term liabilities		
Deferred income taxes	4,439,785	3,856,026
Note payable, net of current portion	1,176,170	3,598,798
Total Long-Term Liabilities	<u>5,615,955</u>	<u>7,454,824</u>
<b>Total liabilities</b>	<u>34,250,770</u>	<u>47,777,300</u>
<b>Stockholder's Equity</b>		
Common stock, \$5,000 stated value; 7,200 shares authorized, issued and outstanding	36,000,000	36,000,000
Retained earnings	13,154,068	8,124,958
Total Stockholder's Equity	<u>49,154,068</u>	<u>44,124,958</u>
<b>Total Liabilities And Stockholder's Equity</b>	<u><u>83,404,838</u></u>	<u><u>91,902,258</u></u>

See accompanying notes to financial statements.

**STATEMENTS OF OPERATIONS AND RETAINED EARNINGS YEARS ENDED MARCH 31, 2020 AND 2019**

	2020 US\$	2019 US\$
<b>Revenues</b>		
Net sales	145,587,429	172,757,877
Commission income	420,119	382,517
<b>Total Revenues</b>	<b>146,007,548</b>	173,140,394
<b>Cost of sales</b>		
Depreciation	3,562,926	3,479,274
Other cost of sales	121,098,331	149,896,207
<b>Total cost of sales</b>	<b>124,661,257</b>	153,375,481
Gross profit	21,346,291	19,764,913
Operating expenses		
General and administrative	9,463,021	8,377,350
Selling	6,295,910	7,673,609
Depreciation and amortization	59,574	64,155
Total Operating Expenses	15,818,505	16,115,114
Income From Operations	5,527,786	3,649,799
Other Income (Expense)		
Foreign currency transaction gain, net	72,677	677,045
Interest expense	(448,337)	(292,131)
Gain on settlement of accounts payable (Note 11)	-	7,075,949
Total other income (expense)	(375,660)	7,460,863
Income before income tax expense	5,152,126	11,110,662
Income Tax Expense	685,462	3,555,881
<b>Net Income</b>	<b>4,466,664</b>	7,554,781
Adoption of New Accounting Policy (Note 1)	562,446	-
Retained Earnings, Beginning of Year	8,124,958	570,177
<b>Retained Earnings, End of Year</b>	<b>13,154,068</b>	8,124,958

See accompanying notes to financial statements.

**STATEMENT OF CASH FLOWS YEARS ENDED MARCH 31, 2020 AND 2019**

	2020 US\$	2019 US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	4,466,664	7,554,781
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,622,500	3,543,429
Deferred income taxes	396,276	3,555,881
Foreign currency transaction unrealized gain	(47,327)	(690,782)
Gain on settlement of accounts payable	-	(7,075,949)
Changes in:		
Accounts receivable	5,313,190	(2,955,185)
Contract assets	254,238	-
Other receivables	58,043	(45,961)
Inventories	2,671,804	(2,235,188)
Prepaid expenses	20,721	(22,703)
Other assets	(19,657)	(75)
Accounts payable	(12,698,640)	5,527,883
Accrued expenses	50,776	(536,921)
Net cash from operating activities	4,088,588	6,619,210
<b>Cash flows from investing activities</b>		
Proceeds from issuance of note receivable	(2,000,000)	-
Purchases of property, plant and equipment	(479,840)	(479,545)
Net cash from investing activities	(2,479,840)	(479,545)
<b>Cash flows from financing activities</b>		
Principal payments on note payable	(2,415,098)	(6,955,323)
Net borrowings (repayments) on line of credit	1,000,000	(32,500)
<b>Net cash from financing activities</b>	(1,415,098)	(6,987,823)
Net change in cash and cash equivalents	193,650	(848,158)
Cash and cash equivalents, beginning of year	1,985,393	2,833,551
<b>Cash and cash equivalents, end of year</b>	<b>2,179,043</b>	<b>1,985,393</b>
<b>Supplemental disclosures of cash flows information:</b>		
Cash paid for –		
Interest	444,005	212,145
Income taxes	321,745	73,301
Total cash and cash equivalents is comprised of:		
Cash and cash equivalents	985,004	755,230
Restricted cash	1,194,039	1,230,163
<b>Total cash and cash equivalents</b>	<b>2,179,043</b>	<b>1,985,393</b>

See accompanying notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS MARCH 31 2020 AND 2019**

**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.

**Recently Adopted Accounting Pronouncements:**

On April 1, 2019, the Company adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments thereto (collectively, "Topic 606"). Topic 606 supersedes virtually all existing revenue recognition guidance, including industry-specific guidance, and replaces it with a single, comprehensive framework for recognizing revenue from contracts with customers. Topic 606 also requires enhanced disclosure about the Company's revenue from contracts with customers.

The Company elected to adopt Topic 606 using the modified retrospective transition method, including the practical expedient to apply Topic 606 only to contracts not completed as of the date of adoption. Under this method, the Company recognized the effect of adopting Topic 606 as a \$562,446 adjustment to its April 1, 2019 opening balance of retained earnings.

The primary impact to the Company from adopting Topic 606 was, under legacy GAAP, the Company recognized revenue from its consignment sales when the customer used the product or the contractual billing date was reached. Under Topic 606, revenue is recognized when shipped as the customer has obtained control of the product and the Company has fulfilled its performance obligations, resulting in an acceleration of revenues.

The composition of the cumulative effect adjustment recorded by the Company for the adoption of Topic 606 was as follows:

	<b>Balance at March 31, 2019</b>	<b>Adjustment for Topic 606</b>	<b>Balance at April 1, 2019</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Balance Sheet</b>			
Contract assets		5,422,474	5,422,474
Inventories	11,699,687	(4,672,546)	7,027,141
Deferred income tax liabilities	3,856,026	187,482	4,043,508
Retained earnings	8,124,958	562,446	8,687,404

The impact to the current reporting period from the adoption of Topic 606 was as follows:

<b>March 31, 2020</b>	<b>As Reported</b>	<b>Balances Under Legacy GAAP</b>	<b>Effect of Adopting Topic 606</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Balance Sheet</b>			
Contract assets	5,168,236	-	5,168,236
Inventories	4,355,338	8,531,109	(4,175,771)
Deferred income taxes liabilities	4,439,785	4,191,669	248,116
Retained earnings	13,154,068	12,409,720	774,348

**NOTES TO FINANCIAL STATEMENTS MARCH 31 2020 AND 2019**

Year ending March 31, 2020	As Reported	Balances Under Legacy GAAP	Effect of Adopting Topic 606
	US\$	US\$	US\$
<b>Income Statement</b>			
Revenues	146,007,548	146,261,786	(254,238)
Cost of sales	124,661,257	125,158,031	(496,774)
Income tax expense	685,462	624,828	60,634
Net income	4,466,664	4,284,762	181,902

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows – Restricted Cash (Subtopic 230-10)* which amended existing guidance related to the presentation of restricted cash on the statement of cash flows. This amendment requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This amendment is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The amendment requires retrospective application and the Company has adopted the amendment retrospectively. As a result, the cash flow statement for the year ended March 31, 2019 has been restated to reconcile total cash, including cash and cash equivalents and restricted cash.

**Cash and Cash Equivalents:**

Cash and cash equivalents 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. The Company routinely maintains balances in excess of \$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. Management has recorded an allowance of \$220,000 both at March 31, 2020 and 2019, based on a review of individual accounts. Interest is not charged on accounts receivable.

**Inventories**

Inventories 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 net realizable value. Cost is determined by first-in, first-out method. Work-in-process and finished goods are stated at the lower of cost or net realizable value. Cost is determined by weighted average method. Miscellaneous supplies inventory items such as stores, fuel and packaging materials are stated at the lower of cost, based on 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 of property, plant and equipment are as follows:

Factory buildings	30 years
Residential building	25 years
Aircraft	20 years
Plant & machinery	7-21 years
Office equipment	3-7 years
Furniture & fixtures	3-7 years
Motor vehicles	5-7 years



**Long-Lived Assets**

Long-lived assets are evaluated for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. An impairment charge would be recorded when the undiscounted cash flows estimated to be generated by the assets are less than the carrying amounts of those assets. The Company believes that no impairment of long-lived assets existed as of March 31, 2020 and 2019.

**Revenue Recognition**

The Company recognizes revenue from contracts with customers when control of the promised goods transfer to the customer. All revenues are recognized at a point in time.

The Company manufactures flexible packaging films for its customers located in North America and its customers are primarily in the packaging industry. The Company's primary performance obligation consists of manufacturing and shipping the product to the customer in accordance with the terms of the relevant purchase order. The Company's revenues are impacted by the overall economy and may fluctuate as the economy and the consumer products and packaging industries change. The Company recognizes revenue from two types of contracts.

**Revenue Upon Shipment**

Revenue from the sale of products to customers is recognized upon shipment, representing the point in time the customer obtains control.

**Consignment Revenue**

Consignment revenue relates to products that are shipped to the customer facility and used by the customer as required based on their production schedule. This revenue is recognized upon shipment, representing the point in time the customer obtains control and obtains substantially all the benefits of the product. From that point in time the customer has physical possession and the contractual risk of loss of the product. The Company does not have the unilateral ability to contractually reclaim the transferred products. The Company bills the customer upon their usage of the products and any unused product is billed at an agreed upon contractual billing date.

Payment from customers is typically due within 45-60 days of invoice date. The amount of revenue recognized includes an estimate for returns, early payment discounts and certain rebates offered to customers, which the Company estimates based on its historical experience with such terms. No warranties are offered. No sales taxes are included in sales or cost of goods sold.

At the time revenue is recognized for sales upon shipment, the Company records an accounts receivable since the Company's right to consideration in exchange for goods transferred to customers is unconditional. At the time revenue is recognized for consignment sales, the Company records a contract asset until the customer uses the product or the contractual billing date is reached, at which time the Company records an accounts receivable and reduces the contract asset.

**Contract Assets and Liabilities**

The Company recognizes accounts receivable and contract assets due to differences in timing between revenue recognition and billings. Accounts receivable are recognized upon billing. Contract assets arise from consignment sales since the customer obtains control of the product before the Company has the right to bill for the product.

There are no contract liabilities as of March 31, 2020 since there is no consideration received from the customers before the Company's performance obligation is satisfied.

The following table presents the Company's balances from contracts with customers as of March 31, 2020 and April 1, 2019:

	<b>As of March 31, 2020</b>	<b>As of April 1, 2019</b>	<b>Change</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Accounts receivable	\$ 18,848,978	\$ 24,162,168	\$ (5,313,190)
Contract assets	5,168,236	5,422,474	(254,238)

**NOTES TO FINANCIAL STATEMENTS MARCH 31 2020 AND 2019**

In connection with the adoption of Topic 606, the Company has applied the following practical expedients.

The Company has elected to account for shipping as a fulfillment activity. The Company records freight billed in net sales and freight expenses in other cost of sales in the statements of operations and retained earnings.

The Company's contracts typically do not result in situations where there is a time period greater than one year between the performance under the contract and collection of the related consideration. The Company elected the practical expedient under Topic 606 related to significant financing components, where the Company expects, at contract inception, that the period between the Company's transfer of a promised service to a customer and the customer's payment for that good will be one year or less.

The Company also applies the practical expedient in Topic 606 related to costs to obtain a contract and recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the incurred costs that the Company otherwise would have capitalized is one year or less. These costs are included in selling expenses on the statements of operations and retained earnings.

**Shipping and Handling Costs**

Shipping and handling costs billed to customers are included in net sales and the related expenses are recorded in costs of sales. During the years ended March 31, 2020 and 2019, the Company charged \$7,994,854 and \$9,043,307 of shipping and handling costs, respectively.

**Advertising Costs**

Advertising costs are nondirect-response and expensed as incurred. Total advertising cost for the years ended March 31, 2020 and 2019 was \$375,165 and \$289,175.

**Foreign Currency Transaction Gain/Loss**

The Company has a note payable to OLB Bank (OLB), formerly KBC Bank, and a related deposit held with OLB, 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 foreign currency transaction gain or loss because of the adjustment to the unpaid principal balance and deposit amount as of the last date of the financial period.

The Company also records foreign currency transaction gain or loss at the time principal payments are disbursed to OLB, based on the amount disbursed which is less or greater than the amount stated in United States dollars on the origination date of the note payable.

The Company's financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the European Union. The Company's operating results are exposed to changes in exchange rates between the US dollar and the Euro.

**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 disclosure of contingent 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.

**Fair Value of Financial Instruments:**

The financial instruments of the Company consist mainly of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and debt. The fair value of these instruments approximates their carrying values due to the short-term nature and pricing of the instruments.

**Income Taxes**

The provision for income taxes includes federal, state and local income taxes currently payable and those deferred or prepaid because of temporary differences between financial statement and tax bases of assets and liabilities. The Company records income taxes under the asset and liability method. Under this method, deferred income taxes are recognized for the estimated future tax effects of differences between the financial statement carrying amounts of

**NOTES TO FINANCIAL STATEMENTS MARCH 31 2020 AND 2019**

existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company is subject to U.S. federal income tax as well as state income tax. The Company is no longer subject to examination by federal and state tax authorities for years before 2015. The Company has not recorded any amounts for unrecognized tax benefits and does not expect this to significantly change in the next 12 months. As applicable, the Company recognizes interest and/or penalties accrued related to unrecognizable benefits as components of its income tax provision. The Company did not have any amounts accrued for interest and penalties at either March 31, 2020 or 2019.

**Subsequent Events**

Management has evaluated subsequent events through June 4, 2020, which is the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus (COVID-19) surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. In response, governments and businesses worldwide have restricted access to public facing institutions, those deemed non-essential. These closures have led to significant, adverse changes in macroeconomic conditions – constraints on supply chain, sourcing of inputs and workforce availability. The extent to which the coronavirus will have additional impacts on the Company’s business activities will depend on future developments, which are highly uncertain and cannot be predicted. The operations and business results of the Company could be materially adversely affected.

**NOTE 2 – RESTRICTED CASH**

Restricted cash represents a security deposit with Oldenburgische Landesbank AG (OLB) as provided in the Term Loan Agreement entered into between the Company and OLB dated July 20, 2012 and termed as Debt Service Reserve 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 principal balance of the note payable until the date of installment. At March 31, 2020 and 2019, the amount held by OLB was \$1,194,039 and \$1,230,163, respectively.

**NOTE 3 – INVENTORIES**

**Inventories at March 31, 2020 and 2019 consist of the following:**

	<b>2020</b>	2019
	<b>US\$</b>	US\$
Raw materials	2,333,557	4,696,596
Work in process	267,791	486,289
Finished goods	1,203,581	5,939,673
Spare parts and supplies	550,409	577,129
Total inventories	<u>4,355,338</u>	<u>11,699,687</u>

**NOTES TO FINANCIAL STATEMENTS MARCH 31 2020 AND 2019**
**NOTE 4 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment at March 31, 2020 and 2019 consist of the following:

	2020 US\$	2019 US\$
Plant and equipment	52,104,794	51,941,645
Factory buildings	18,249,963	18,249,963
Office equipment	1,647,876	1,640,222
Residential building	1,218,829	1,174,731
Aircraft	1,063,100	1,063,100
Furniture and fixtures	392,740	392,740
Motor vehicles	760,625	530,274
Land	93,210	93,210
	<u>75,531,137</u>	<u>75,085,885</u>
Accumulated depreciation	<u>(25,265,475)</u>	<u>(21,677,563)</u>
Property, plant and equipment, net	<u>50,265,662</u>	<u>53,408,322</u>

Depreciation expense was \$3,616,081 and \$3,532,429 for the years ended March 31, 2020 and 2019, respectively.

**NOTE 5 – NOTE PAYABLE**

Note payable at March 31, 2020 and 2019 consists of the following:

	2020 US\$	2019 US\$
Note payable to OLB, payable in semi-annual principal payments of €1,068,935. Interest is paid semi-annually at a variable rate tied to LIBOR. At March 31, 2020 and 2019, the effective interest rate was .93% and 1.5%, respectively. The final payment is due July 2021. The note payable is secured by certain pieces of the Company's machinery. The terms of the note payable are denominated in Euro and the Company bears foreign currency exchange risk on this note payable. The amounts are based on the Euro and United States dollar conversion rates at March 31, 2020 and 2019. Note payable balances in Euro are €3,206,804 and €5,344,674 at March 31, 2020 and 2019, respectively.	3,535,343	5,997,768
Less: Current portion	<u>(2,359,173)</u>	<u>(2,398,970)</u>
Long-term note payable	<u>1,176,170</u>	<u>3,598,798</u>
Future maturities are as follows:		
Years ending March 31	US\$	
2021	2,359,173	
2022	1,176,170	
	<u>3,535,343</u>	

**NOTES TO FINANCIAL STATEMENTS MARCH 31 2020 AND 2019**

**NOTE 6 – LINE OF CREDIT**

The Company has a \$24,000,000 line of credit with Chase Bank with interest paid monthly at a variable rate tied to LIBOR. The effective interest rate at March 31, 2020 and 2019 was 3.25% and 4.98%, respectively. The outstanding balance at March 31, 2020 and 2019 was \$6,807,533 and \$5,807,533, respectively, and is secured by the Company's accounts receivable and inventory and guaranteed by Uflex Limited. The line of credit matures on October, 31 2020. The line of credit requires the Company to maintain certain financial and administrative covenants. The Company was in compliance with the financial covenants and had received waivers for certain administrative covenants as of March 31, 2020.

**NOTE 7 – INCOME TAXES**

Income tax expense for the years ended March 31, 2020 and 2019 consists of the following:

	<b>2020</b>	2019
	<b>US\$</b>	US\$
Current	<b>289,186</b>	-
Deferred	<b>396,276</b>	3,555,881
Income tax expense	<b>685,462</b>	3,555,881

The difference between the income tax expense computed at the federal statutory rate of 21% and the Company's actual income tax expense for the year ended March 31, 2019 is due to utilization of net operating losses fully offsetting the current income tax expense and the effect of certain state tax rate changes.

Deferred income taxes consist of the following at March 31, 2020 and 2019:

	<b>2020</b>	2019
	<b>US\$</b>	US\$
Inventories	87,985	229,021
Accounts receivable	52,109	59,400
Accrued expenses	25,304	26,212
Net operating losses	1,957,738	2,512,913
Property, plant and equipment	(6,280,855)	(6,536,305)
Topic 606 accounting method change	(133,221)	-
Other	(148,845)	(147,267)
Deferred income tax liability	<b>(4,439,785)</b>	<b>(3,856,026)</b>

The Company has federal net operating loss carryforwards of \$6,800,232. Net operating losses expire 20 years from the year generated. Net operating losses were generated in the years as follows:

<b>Years Ended</b>	<b>Net Operating Loss</b>
<b>March 31,</b>	<b>Generated</b>
	<b>US\$</b>
2015	4,295,080
2016	76,804
2017	1,094,748
2018	1,333,600
<b>Total</b>	<b>6,800,232</b>

**NOTE 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 are summarized below.

**NOTES TO FINANCIAL STATEMENTS MARCH 31 2020 AND 2019**

**The Company has accounts receivable from related parties in the following amounts at March 31, 2020 and 2019:**

	<b>2020</b>	2019
	<b>US\$</b>	US\$
Flex Americas S.A. de CV, Mexico	-	25,315
Flex Films Europa	<b>9,138</b>	71,825
Flex Middle East	<b>154,713</b>	109,696
Uflex Limited	<b>64,197</b>	142,793
	<b>228,048</b>	349,629

**The Company has accounts payable to related parties in the following amounts at March 31, 2020 and 2019:**

	<b>2020</b>	2019
	<b>US\$</b>	US\$
Flex Americas S.A. de CV, Mexico	<b>14,317,286</b>	27,834,239
Flex Films Europa	<b>5,904</b>	-
Uflex Limited	<b>67,639</b>	109,724
	<b>14,390,829</b>	27,943,963

**The Company recognized revenues from related parties in the following amounts for the years ended March 31, 2020 and 2019:**

	<b>2020</b>	2019
	<b>US\$</b>	US\$
Flex Americas S.A. de CV, Mexico	<b>439,465</b>	34,950
Flex Films Europa	<b>48,948</b>	225,550
Flex Middle East	<b>45,053</b>	-
Flex Films Egypt	<b>26</b>	-
Flex Films Russia	<b>378</b>	-
Uflex Limited	<b>67,780</b>	2,774
	<b>601,650</b>	263,274

**The Company recognized expenses in cost of sales and operating expenses to related parties in the following amounts for the years ended March 31, 2020 and 2019:**

	<b>2020</b>	2019
	<b>US\$</b>	US\$
Flex Americas S.A. de CV, Mexico	<b>63,350,708</b>	89,060,160
Flex Middle East	<b>5,954</b>	-
Uflex Limited	<b>45,324</b>	-
	<b>63,401,986</b>	89,060,160

The Company issued a \$2,000,000 term note to Uflex Packaging Inc. in February 2020. The note bears interest at 4.5% annually and matures February 20, 2021. The note receivable balance at March 31, 2020 was \$2,000,000.



FLEX FILMS (USA) INC

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**NOTES TO FINANCIAL STATEMENTS MARCH 31 2020 AND 2019**

**NOTE 9 – RETIREMENT PLAN**

The Company has, under Section 401(k) of the Internal Revenue Code, a defined contribution retirement plan (the Plan) for its employees. The Company has not opted to match employee contributions or make discretionary contributions to the Plan.

**NOTE 10 – MAJOR CUSTOMER**

During the years ended March 31, 2020 and 2019, the Company had two customers totaling approximately 10% of net sales and about 10% of accounts receivable.

**NOTE 11 – GAIN ON SETTLEMENT OF ACCOUNTS PAYABLE**

In 2019, a lawsuit the Company filed against one of its creditors asking for forgiveness of amounts owed in accounts payable for raw material purchases due to the bankruptcy of the creditor was granted by the United States Bankruptcy Court for the District of Delaware. As a result, the company recognized a gain of \$7,075,949 in connection with the write off of the payable to the creditor.





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