# FLEX P. FILMS (EGYPT) S.A.E.

*Wholly Owned Subsidiary Company of*
*Flex Middle East FZE*


## FINANCIAL STATEMENTS
## 2015 - 2016

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# AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF**
**FLEX P. FILMS (EGYPT) S.A.E.**

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Flex P. Films Egypt S.A.E. which comprise the balance sheet as of 31 March 2016, and the statements of income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's responsibility for the Financial Statements**
These financial statements are the responsibility of the Company's Management as Management is responsible for the preparation and fair presentation of the financial statements in accordance with Egyptian Accounting Standards and in the light of relevant Egyptian laws and regulations. The Management's responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair-presentation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility also includes selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

**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 Egyptian Standards on Auditing and in the light of relevant Egyptian laws and regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance that 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. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of 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 on the financial statements.

**Opinion**
In our opinion, the financial statements present fairly, in all material respects, the financial position of Flex P. Films Egypt S.A.E. as of 31 March 2016, and its financial performance and its cash flows for the year then ended in accordance with Egyptian Accounting Standards and in the light of relevant Egyptian laws and regulations.

**Emphasis of matter**
Without qualifying our opinion, we draw attention to the fact that the company has a costing system that only caters for the valuation of finished goods and works in progress on an aggregate level, rather than a cost per unit basis, which in turn applies to the cost of sales.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

The company maintains proper books of accounts that include all that is required by the Law and the company's Articles of Association, and the financial statements are in agreement therewith. The physical count of inventories was carried out by the company's management in accordance with normal procedures.

The financial information included in the Board of Directors' report, which has been prepared in accordance with the requirements of Law No. 159 of 1981 and its Executive Regulations, is in agreement with the relevant information in the company's books.

Mohanad T. Khaled
Chartered Accountant
R.A.A. 22444
EFSA No. 375

Cairo, 5 May 2016

## BALANCE SHEET AT 31ST MARCH 2016

| | Note | 31/3/2016 US $ | 31/3/2015 US $ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | 5 | **76,151,879** | 79,152,602 |
| Deposits with others | 6 | **2,735,624** | 3,218,881 |
| **Total non-current assets** | | **78,887,503** | 82,371,483 |
| | | | |
| **CURRENT ASSETS** | | | |
| Inventories | 7 | **9,136,611** | 12,477,957 |
| Debtors and other debit balances | 8 | **43,513,887** | 44,061,887 |
| Amounts due from related parties | 9 | **1,405,710** | 861,734 |
| Cash and bank balances | 10 | **17,773,258** | 9,355,782 |
| **Total current assets** | | **71,829,466** | 66,757,360 |
| | | | |
| **CURRENT LIABILITIES** | | | |
| Bank overdrafts | 10 | **37,203,582** | 28,831,396 |
| Creditors and other credit balances | 11 | **15,015,414** | 14,999,316 |
| Amounts due to related parties | 9 | **2,382,372** | 5,770,161 |
| Current portion of long term loan | 12 | **4,445,203** | 4,192,675 |
| Current portion of medium term loan | 13 | **3,214,816** | 3,214,816 |
| **Total current liabilities** | | **62,261,387** | 57,008,364 |
| **Working Capital** | | **9,568,079** | 9,748,996 |
| **Total investment** | | **88,455,582** | 92,120,479 |
| | | | |
| **Financed as follows:** | | | |
| **EQUITY** | | | |
| Issued and paid up capital | 14 | **47,914,115** | 47,914,115 |
| Legal reserve | 15 | **952,460** | 720,035 |
| Retained earnings | | **6,789,330** | 5,298,846 |
| **Total equity** | | **55,655,905** | 53,932,996 |
| | | | |
| **Non-current liabilities** | | | |
| Long term loan | 12 | **11,385,347** | 14,931,230 |
| Medium term loan | 13 | **14,466,665** | 17,681,480 |
| Deferred tax liabilities | 21 | **6,947,665** | 5,574,773 |
| **Total non-current liabilities** | | **32,799,677** | 38,187,483 |
| **Total finance of investment** | | **88,455,582** | 92,120,479 |

Auditor's report attached.

| **Nikhil Kantan** | **Ram S. Singh** | **Sanjay Tiku** | **Pradeep Tyle** |
|---|---|---|---|
| Financial Controller | Chief Commercial Officer | Director / Board Member | Managing Director |

The attached notes from 1 to 26 form part of these Financial Statements

## STATEMENT OF INCOME FOR THE YEAR ENDED 31ST MARCH 2016

| | Note | 31/3/2016 US$ | 31/3/2015 US$ |
|---|---|---|---|
| Net sales | 16 | **115,259,285** | 126,968,021 |
| Cost of sales | | **(95,713,933)** | (114,143,350) |
| Discount earned | | **959,597** | - |
| **GROSS PROFIT** | | **20,504,949** | 12,824,671 |
| General and administrative expenses | 17 | **(2,760,054)** | (3,714,129) |
| Selling and distribution expenses | 18 | **(6,516,778)** | (7,092,439) |
| Other operating revenue | 19 | **4,164,874** | 7,111,778 |
| Foreign currency exchange loss | | **(6,251,960)** | (4,985,645) |
| Bad debts | | **(73,528)** | - |
| Impairment of debtors and other debit balances | 8 | **-** | (839,909) |
| Impairment no longer required | 8 | **-** | 13,919 |
| **Profit from operations** | | **9,067,503** | 3,318,246 |
| Net finance (expenses)/ income | 20 | **(3,046,111)** | 3,570,617 |
| **Profit for the year before tax** | | **6,021,392** | 6,888,863 |
| Deferred tax | 21 | **(1,372,892)** | (1,311,130) |
| **Net profit for the year** | | **4,648,500** | 5,577,733 |
| **Earnings per share** | 22 | **0.173** | 0.208 |

The attached notes from 1 to 26 form part of these Financial Statements

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST MARCH 2016

| | Issued and paid up capital US$ | Legal reserve US$ | Retained earnings US$ | Total US$ |
|---|---|---|---|---|
| Balance at 1 April 2014 | 47,914,115 | 441,148 | 2,621,373 | 50,976,636 |
| Dividends declared | - | - | (2,621,373) | (2,621,373) |
| Net profit for the year | - | - | 5,577,733 | 5,577,733 |
| Transfer to legal reserve | - | 278,887 | (278,887) | - |
| Balance at 31 March 2015 | 47,914,115 | 720,035 | 5,298,846 | 53,932,996 |
| Dividends declared | - | - | (2,925,591) | (2,925,591) |
| Net profit for the year | - | - | 4,648,500 | 4,648,500 |
| Transfer to legal reserve | - | 232,425 | (232,425) | - |
| Balance at 31 March 2016 | 47,914,115 | 952,460 | 6,789,330 | 55,655,905 |

The attached notes from 1 to 26 form part of these Financial Statements

## STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31ST MARCH 2016

| | Note | 31/3/2016 US$ | 31/3/2015 US$ |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year before tax | | **6,021,392** | 6,888,863 |
| Adjustments for: | | | |
| Depreciation | 5 | **4,726,704** | 4,705,578 |
| Finance foreign exchange loss/ (gain) | | **885,865** | (5,559,369) |
| Impairment of debtors and other debit balances | 8 | **-** | 839,909 |
| Provision no longer required | 8 | **-** | (13,919) |
| Net foreign currency exchange loss | | **6,451,132** | 3,101,477 |
| Bad debts | | **73,528** | - |
| Gain on sale of fixed assets | 19 | **(17,618)** | (8,781) |
| Finance interest | 20 | **3,074,654** | 2,114,647 |
| **Operating profit before working capital changes** | | **21,215,657** | 12,068,405 |
| Inventories | | **3,425,262** | 760,260 |
| Debtors and other debit balances | | **(2,799,634)** | 4,760,479 |
| Amounts due from a related party | | **(543,976)** | 894,505 |
| Creditors and other credit balances | | **(2,629,519)** | (8,142,497) |
| **Cash from operations** | | **18,667,790** | 10,341,152 |
| Interest paid | | **(2,844,885)** | (1,842,869) |
| **Net cash from operating activities** | | **15,822,905** | 8,498,283 |
| **INVESTING ACTIVITIES** | | | |
| Payment for purchase of fixed assets | 5 | **(1,726,764)** | (564,897) |
| Proceeds from sale of fixed assets | | **18,401** | 8,781 |
| **Net cash used in investing activities** | | **(1,708,363)** | (556,116) |
| **FINANCING ACTIVITIES** | | | |
| Proceeds from medium term loan | 13 | **-** | 21,700,000 |
| Repayment of term loans | | **(7,394,035)** | (5,857,642) |
| Deposits with others | | **(17,521)** | 100,678 |
| Amounts due to related parties | | **(3,387,789)** | (28,956,615) |
| **Net cash used in financing activities** | | **(10,799,345)** | (13,013,579) |
| Decrease in cash and cash equivalents | | **3,315,197** | (5,071,412) |
| Cash and cash equivalents at the beginning of the year | | **(19,475,614)** | (13,903,047) |
| Exchange differences | | **(3,269,907)** | (501,155) |
| **Cash and cash equivalents at the end of the year** | 10 | **(19,430,324)** | (19,475,614) |

**NON-CASH TRANSACTIONS**

The statement of cash flow does not include the following non-cash transactions:

- The foreign currency exchange loss related to revaluation of loan balance amounted to US$ 885,865 (Note 20).
- The net foreign currency exchange loss related to revaluation of deposits with others, debtors and creditors balances at year end which resulted in loss of US$ 500,778, loss of US$ 2,744,221 and gain of US$ 63,774 respectively.
- An amount of US$ 2,925,591 represents dividends payable in the creditors & other credit balances.
- An amount of US$ 73,528 represents bad debts of trade receivables.
- An amount of US$ 529,885 represents advances for employees in the debtors & other debit balances paid during the prior year and settled this year in dividends payable (employees share) in the creditors & other credit balances.
- An amount of US$ 229,769 represents accrued interests in creditors & other credit balances related to term loans.
- An amount of US$ 83,916 in inventory and creditors & other credit balances represent goods in transit (raw materials).

The attached notes from 1 to 26 form part of these Financial Statements

## NOTES TO THE FINANCIAL STATEMENTS 31ST MARCH 2016

### 1. ACTIVITIES

Flex P. Films Egypt S.A.E. was established in accordance with Companies Law No. 159 of 1981 and its Executive Regulations and Capital Market Law No. 95 of 1992 and its Executive Regulations.

On 14 January 2009 the company was registered in Commercial Register under No. 36616. The company duration is 25 years from 14 January 2009 till 13 January 2034.

The company was located in plot No. 3 at the Northern Extension, Building no. 6, Industrial Zone, 6 of October City.

The company has started its operations on 1 September 2010.

The company's purpose is as follows:

- Establish and operate a factory for manufacturing wrapping and packing papers (other than craft) and carton excluding manufacturing the paper pulp and Printing the commercial publications excluding the manufacturing of the paper pulp.
- According to the Extra Ordinary General Meeting dated 28 July 2009, the company's objective has been amended to be manufacturing and exporting of different types of polypropylene films (plain, coated, metalized), polyester films (plain, coated, metalized) and bioxially oriented polypropylene, and this amendment has been made in the Articles of Association.

The company's management approved the issuance of the financial statements for the year ended 31 March 2016 on 4 May 2016.

### 2. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with Egyptian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumption are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the future periods if it affects future periods.

The basic estimates and underlying assumptions that affect the financial statements are as follows:

- Fixed assets useful life
- Provisions
- Assets impairment
- Taxation
- Deferred tax

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of preparation

The financial statements were prepared in accordance with the Egyptian Accounting Standards and relevant Egyptian laws and regulations.

On 9 July 2015, the resolution of the Minister of Investment No. 110 of 2015 has been issued for new EAS superseding the previously issued ones in 2006, and effective for financial periods beginning on (or after) 1 January 2016.

The financial statements are prepared under the historical cost convention.

The financial statements are presented in US Dollar.

#### b) Fixed assets and depreciation

Fixed assets are recorded on purchase at cost and are presented in the financial statement net of accumulated depreciation and impairment losses. Historical costs include costs associated with the purchase of the asset.

Depreciation is provided on a straight line basis to write off the cost less estimated residual value of each asset over its expected useful life as follows:

| | | |
|---|---|---|
| Buildings & Facilities | 30 | Years |
| Machines | 20 | Years |
| Furniture & office equipment | 4 - 6 | Years |
| Motor Vehicles | 4 | Years |
| Tools & equipment | 4 | Years |
| Computers | 6 | Years |

**c) Projects under construction**

Costs incurred by the company in constructing fixed assets are recorded as projects under construction less impairment. These are transferred to fixed assets when the asset is complete and ready for its designated use.

**d) Inventories**

Inventories are stated at the lower of cost or net realizable value. Costs include expenses incurred in bringing each product to its present location and condition as follows:

| | | |
|---|---|---|
| Raw materials | – | Purchase cost using First-In First-Out (FIFO) method. |
| Finished goods and work in progress | – | Cost of direct materials and labour plus attributable overheads based on a normal level of activity. |

Net realizable value is based on estimated selling price less selling expenses. Impairment is made for obsolete and slow moving items.

**e) Trade receivables**

Trade receivables represent the invoiced amounts of credit sales outstanding net of impairment for trade receivables, which is estimated for amounts not expected to be collected in full.

**f) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and bank current accounts, time deposits and Cheques under collection with maturity within three months, less bank overdrafts.

**g) Accounts Payable**

Liabilities are recognized for amounts to be paid in the future for goods received or services rendered to the company, whether billed or not billed by the supplier.

**h) Assets impairment**

Asset values are reviewed at the financial statements date to determine if there is any indication of impairment. In case of such an indication, an estimate is made of the recoverable amount and compared to the book value. Impairment loss, being the excess of book value over its recoverable amount, is taken to the statement of income on the same date.

**i) Foreign currency transactions**

The company's functional currency is US Dollars. Transactions in Egyptian pounds or any other foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the financial statements date are translated at the rate of exchange ruling at that date. Retranslation exchange profits and losses are taken to the statement of income.

**j) Borrowing costs**

Borrowing costs are expensed and charged to the statement of income in the periods when incurred net of transaction cost.

Fees paid on the establishment of loan facilities, if any, are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. In case, it is not probable that some or all of the facility will be draw down, the fee is capitalized as a prepayment for liquidity services and over the period of the facility to which it relates.

**k) Revenue recognition**

- Revenue from the sale of goods is recognized when the risks and rewards of ownership have been transferred to the buyer as follows:
  - Export sales are recognized when the products are loaded on the ship and according to the International Commercial (INCO) term and issuing invoices.
  - Domestic sales are recorded when title passes to the customer and amounts are invoiced.
- No revenue is recognized if there are uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.
- Interest income is recognized on a time apportionment basis.
- Export subsidies income is recorded when collected.

**l) Pension and social insurance**

The company contributes to the social insurance scheme for the benefit of its employees in accordance with the Social Insurance Law No. 79 of 1975 and its amendments. Contributions are charged to the statement of income under payroll expenses.

**m) Provisions**

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event; it is probable an outflow of resources embodying economic benefits will be required to settle this obligation and a reliable estimate can be made for the obligation.

Provisions are reviewed at the financial statements date and adjusted (if necessary) to present the best current estimate.

**n) Statement of cash flow**

The statement of cash flow is prepared using the indirect method.

**o) Taxation**

Tax expense for the year includes income tax provided for in accordance with the Egyptian Tax Laws and fiscal regulations using applicable tax rates and deferred tax. Income tax on the company's profit is charged to the statement of income. Income tax relating to items in the equity is charged directly to the equity.

**Income tax**

Income tax on profits for the current and previous periods that have not been paid and need to be recognized are recorded as a liability. Provision is made for income tax liability for previous years based on the assessment of tax claims.

**Deferred tax**

Deferred tax is recognized under the liability method for temporary timing differences between assets and liabilities valued on the tax basis and the related amounts in the financial statements.

The amount is determined using the tax rates applicable on the financial statement date. Deferred tax assets are recognized for all temporary differences, unused deferred tax assets and losses brought forward, if taxable profits are expected and the assets can be used in the future. Deferred tax assets are reviewed and reduced by the amount which is not expected to be used in the foreseeable future.

## 4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

On-balance sheet financial instruments comprise receivables, payables, amounts due from / to related parties, bank balances and cash. Note (3) to the financial statements includes the accounting policies adopted in the recognition and measurement of financial instruments. The significant risks associated with the financial instruments and the procedures followed by the company to mitigate these risks are as follows:

- ***Liquidity risk***

Liquidity risk represents all factors which affect the company's ability to pay part or all of its obligations. According to the company's policy, sufficient liquidity is maintained (including arrangements for additional credit facilities from banks) which reduce the risk to the minimum.

All of the company's liabilities are represented in the following table:

| | **Maturity less than one year US$** | **Maturity more than one year US$** |
|---|---|---|
| Bank overdrafts (Note 10) | 37,203,582 | - |
| Creditors and other credit balances (Note 11) | 15,015,414 | - |
| Long term loan (Note 12) | 4,445,203 | 11,385,347 |
| Medium term loan (Note 13) | 3,214,816 | 14,466,665 |
| Amounts due to related parties (Note 9) | 2,382,372 | - |

- ***Interest rate risk***

Interest rate risk represents the risk of changes in the rate of interest on a fixed rate loan. The company seeks to reduce this risk through the use of variable rate overdraft and loan accounts.

- ***Foreign currency risk***

Foreign currency risk represents the changes in the currency rates which affect the receipts and disbursements and the translation of assets and liabilities in foreign currencies. The company seeks to avoid having open foreign currency positions and thus reduce the risk to the minimum.

The monetary assets and liabilities dominated in foreign currencies at the financial statements date amounted to US$ 47,814,951 and US$ 23,578,805 respectively, the following is a list of foreign currencies balances at the financial statements date:

| **Foreign currency** | **(Deficit)** |
|---|---|
| L.E. | (6,023,542) |
| Euro | (1,287,138) |
| GBP | (26,317) |

The assets and liabilities in foreign currencies were translated using the current exchange rates at the financial statements date.

- ***Credit Risk***

Credit risk is the risk that one party to a financial instrument (receivables and balances at banks) fail to settle the amounts due from them. The company seeks to reduce this risk to the minimum by dealing with many customers of strong and stable financial standing, in addition to obtaining appropriate guarantees (most of export sales are covered by Letters of Credit opened from customers in favor of company). Balances at banks are placed with high credit rating financial institutions.

- ***Capital management***

The Company's objectives, when managing capital, are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital, so management policy is reserving powerful capital base and make underline capital studies to face changes in economic conditions mainly in polypropylene films industry and diversify customer structure.

## 5. FIXED ASSETS

| | Lands US$ | Buildings & facilities US$ | Machines US$ | Furniture & office equipment US$ | Motor vehicles US$ | Tools & equipment US$ | Computers US$ | Total US$ |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At 1 April 2015 | 3,819,700 | 13,440,453 | 78,565,825 | 348,921 | 355,674 | 147,208 | 404,141 | 97,081,922 |
| Additions during the year | - | - | 1,618,789 | 30,634 | 54,092 | 4,145 | 19,104 | 1,726,764 |
| Disposals | - | - | - | - | (47,976) | - | (1,575) | (49,551) |
| At 31 March 2016 | 3,819,700 | 13,440,453 | 80,184,614 | 379,555 | 361,790 | 151,353 | 421,670 | 98,759,135 |
| **Accumulated depreciation:** | | | | | | | | |
| At 1 April 2015 | - | 1,683,654 | 15,469,520 | 168,825 | 241,606 | 134,743 | 230,972 | 17,929,320 |
| Provided during the year | - | 448,911 | 4,098,500 | 57,837 | 41,448 | 15,393 | 64,615 | 4,726,704 |
| Relating to disposals | - | - | - | - | (47,976) | - | (792) | (48,768) |
| At 31 March 2016 | - | 2,132,565 | 19,568,020 | 226,662 | 235,078 | 150,136 | 294,795 | 22,607,256 |
| **Net book value:** | | | | | | | | |
| At 31 March 2016 | 3,819,700 | 11,307,888 | 60,616,594 | 152,893 | 126,712 | 1,217 | 126,875 | 76,151,879 |
| At 31 March 2015 | 3,819,700 | 11,756,799 | 63,096,305 | 180,096 | 114,068 | 12,465 | 173,169 | 79,152,602 |

– On 17 October 2010, the company has legalized the first degree commercial mortgage on all tangible and intangible assets in favor of KFW Bank as a guarantee against the loan (Note 12 "E-4").

Depreciation provided during the year is allocated as follows:

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Cost of sales | **4,479,163** | 4,421,888 |
| General and administrative expenses (Note 17) | **247,541** | 283,690 |
| | **4,726,704** | 4,705,578 |

Fixed assets include fully depreciated assets which are still in use as follows:

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Buildings & facilities | **128,033** | - |
| Machines | **115,022** | 72,873 |
| Furniture & office equipment | **24,524** | - |
| Motor vehicles | **187,972** | 200,211 |
| | **455,551** | 273,084 |

## 6. DEPOSITS WITH OTHERS

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Rent refundable deposit | **111,087** | 19,532 |
| KFW pledged accounts (*) | **2,566,159** | 3,140,971 |
| Refundable deposit with NATGAS | **58,378** | 58,378 |
| | **2,735,624** | 3,218,881 |

(*) According to pledged account agreement signed on 22 April 2010 in relation to KFW loan mentioned in (Note 12) and KFW bank letters dated 28 January 2011 and 20 December 2011, the company pledged deposits by US$ 2,566,159 (2015: US$ 3,140,971) as a security deposit for term loan. This amount represents 110% of the value of an installment of phase 1 and installment of phase 2 with interest due to KFW bank amounted to Euro 2,253,191.

## NOTES TO THE FINANCIAL STATEMENTS 31ST MARCH 2016

### 7. INVENTORIES

| | 31/3/2016<br>US$ | 31/3/2015<br>US$ |
|---|---|---|
| Raw materials (*) | **3,810,549** | 5,186,947 |
| Works in progress (WIP) | **2,593,869** | 3,626,693 |
| Finished goods | **2,254,991** | 3,317,744 |
| Packing materials | **477,202** | 346,573 |
| | **9,136,611** | 12,477,957 |

(*) The balance includes goods in transit by an amount of US$ 83,916.

### 8. DEBTORS AND OTHER DEBIT BALANCES

| | 31/3/2016<br>US$ | 31/3/2015<br>US$ |
|---|---|---|
| Trade receivables | **23,078,520** | 23,015,136 |
| Advance payments to suppliers | **365,651** | 773,262 |
| Sales Tax Authority (*) | **17,143,028** | 16,935,879 |
| Prepaid expenses | **26,755** | 456,907 |
| Employees' loans and custodies | **14,256** | 62,276 |
| Withholding tax | **2,428,939** | 1,978,439 |
| Cash margin on letters of credit | **713,952** | 324,448 |
| Cash margin on letters of guarantee (**) | **580,748** | 2,057,072 |
| Cash margin – Mudarba | **19,485** | - |
| Advances for employees (***) | **1,506,130** | 1,470,620 |
| Refundable custom duties | **989,359** | 397,994 |
| Other | **88,284** | 61,123 |
| | **46,955,107** | 47,533,156 |
| Impairment of debtors and other debit balances (****) | **(3,441,220)** | (3,471,269) |
| | **43,513,887** | 44,061,887 |

(*) This balance represents amounts due from sales tax authority as a result of sales tax on foreign purchases and inputs that should be collected from the Tax Authority.

(**) This balance represents cash margin on letters of guarantee issued in favor of El Sokhna Customs Authority and Central Unit of the Temporary Release Taxes (Note 25).

(***) This balance represents amounts as advanced to employees against their share in profit until declaration of distribution in the next company's Annual General Meeting.

(****) Movement of impairment of debtors and other debit balances during the year is as follows:

| | 31/3/2016<br>US$ | 31/3/2015<br>US$ |
|---|---|---|
| Balance at the beginning of the year | **3,471,269** | 2,645,279 |
| Provided during the year | **-** | 839,909 |
| Impairment no longer required | **-** | (13,919) |
| Used during the year | **(30,049)** | - |
| Balance at the end of the year | **3,441,220** | 3,471,269 |

### 9. RELATED PARTIES TRANSACTIONS

These represent transactions with related parties such as shareholders, higher management and companies in which they are principal owners. Pricing, policies and terms of these transactions are approved by the company's Board of Directors.

| | Relationship | 31/3/2016 US$ | 31/3/2015 US$ |
|---|---|---|---|
| **Amounts due from related parties:** | | | |
| Flex Films Europa | Sister company | **1,397,082** | 861,734 |
| Flex Films USA, Inc. | Sister company | **6,015** | - |
| Flex Americas S.A. De C.V. | Sister company | **2,613** | - |
| | | **1,405,710** | 861,734 |
| **Amounts due to related parties:** | | | |
| Flex Middle East FZE | Parent company | **1,507,622** | 5,496,944 |
| UFlex Limited Company | Ultimate parent | **874,750** | 108,333 |
| Flex Films USA, Inc. | Sister company | **-** | 164,884 |
| | | **2,382,372** | 5,770,161 |

Transactions with related parties during the year are as follows:

| | Net finance US$ | Purchases US$ | Services US$ | Sales US$ |
|---|---|---|---|---|
| **31/3/2016** | | | | |
| Flex Middle East FZE | 3,500,000 | 8,192 | - | 70,068 |
| UFlex Limited Company | 237,972 | 1,455,101 | 159,410 | - |
| Flex Films Europa | - | - | - | 7,426,878 |
| Flex Films USA, Inc. | - | - | - | 4,268 |
| Flex Americas S.A. De C.V. | - | - | - | 69,528 |
| **31/3/2015** | | | | |
| Flex Middle East FZE | - | 555,764 | 1,131 | 17,491 |
| UFlex Limited Company | - | 810,444 | 373,609 | 39,008 |
| Flex Films Europa | - | - | - | 2,317,622 |
| Flex Films USA, Inc. | - | - | - | 157,968 |

## 10. CASH AND BANK BALANCES

Cash included in the statement of cash flow comprises the following balances include in balance sheet:

| | 31/3/2016 US$ | 31/3/2015 US$ |
|---|---|---|
| Cash on hand | **8,403** | 7,585 |
| Bank current accounts | **2,182,801** | 2,455,480 |
| Time deposits (*) | **15,380,785** | 6,553,767 |
| Cheques under collection | **201,269** | 338,950 |
| | **17,773,258** | 9,355,782 |
| Bank overdrafts | **(37,203,582)** | (28,831,396) |
| | **(19,430,324)** | (19,475,614) |

(*) Time deposits include an amount of US$ 8,351,154 which represents restricted time deposits in NBAD bank against overdraft by amounting to US$ 5 Million to refinance Parent Company loan (Note 10 "C-2").

Cash and bank accounts in foreign currencies represent 92% (2015: 98%) of total balance at the year end.

## NOTES TO THE FINANCIAL STATEMENTS 31ST MARCH 2016

**Bank overdrafts**

Credit facilities represent bank overdrafts granted to the company from the following banks:

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Qatar National Bank (QNB AL AHLI) – A | **13,500,077** | 10,950,136 |
| Abu Dhabi Islamic Bank (ADIB – Egypt) – B | **12,628,931** | 14,905,887 |
| National Bank of Abu Dhabi (NBAD) – C | **11,074,574** | 1,508,185 |
| Ahli United Bank Egypt (AUBE) – D | **-** | 1,467,188 |
| | **37,203,582** | 28,831,396 |

**A. QNB AL AHLI**

QNB Al Ahli Credit Committee has approved the renewal of the short term credit facilities granted to the company in the form of;

1. Overdraft line supported by export documents and / or commercial papers.
2. Line of letters of credit.
3. Line of post finance.
4. New sub-line of post finance.
5. Line of letter of Guarantees.
6. Discounting cheques with recourse.
7. Line of letter of Guarantees.
8. New special transaction ODA line over company's overall ceiling.

Ceiling of short term unsecured credit facilities line (1, 2, 3, 4, 5, 6) shall never exceed at any time US$ 19 million & /or equiv. in EGP or EUR & EGP 20 million (only nineteen Million US Dollar &/ or equiv. in EGP or EUR & EGP 20 Million Egyptian pounds).

**Securities, supports and covenants of working capital facilities;**

- Undertaking from the company to direct job orders proceeds / to execute export shipping documents under supported job orders through the company's account with QNB Al Ahli.
- Insurance over inventory covering all risks by 110% of the company's total short term facilities favoring QNB Al Ahli. (Insurance company to be approved by QNB Al Ahli).
- Joint guarantee issued by UFLEX LTD India (Ultimate Parent Company).
- Leverage not to exceed 2:1.
- Coverage (EBITDA / Net Financial Cost) not to be lower than 3.
- Corporate guarantee of Flex Middle East, Dubai (holding company).
- Utilization of the Increase in FCY facilitates is subject to the bank's FX committee approval prior any utilization.

**B. ADIB - Egypt**

ADIB-Egypt has approved facilities for US$ 15 million with line in LCY to finance the working capital needs according to the following formula:

**1. The facilities**

USD 15,000,000 (only Fifteen Million US Dollars) provided that total utilized amount for this contract &/or L/C Murabaha Agreement &/or L/C limit not to exceed USD 15,000,000 (only Fifteen Million US Dollars) - No cash withdrawals are allowed under the facility

**2. Purpose**

- Financing the company's working capital needs
- Payment of 100% of shipping documents under commercial L/C's facility in FCY issued through ADIB (Abu Dhabi Islamic Bank) &/or financing foreign materials purchases through direct transfers issued in favor of foreign suppliers.

**3. Settlement**

The company requested to have partial settlement of the facility through EGP balances and "Payment periods":180 Days from the withdrawal date via one bullet payment at maturity or monthly installments with a maximum tenor of 180 days (including facility supplier's period).

**4. Security / collateral / financial covenants**

a) Corporate Guarantee from UFlex Ltd. India covering total granted facilities.

b) Informal assignment of export proceeds under ODCs and/or Export LCs in favor of ADIB-Egypt with coverage margin over the indirect exposure of 25%, while direct utilization to be 110% covered

c) Assignment of fire and theft insurance policies on the company's inventory in favor ADIB-Egypt covering 110% of the total granted facilities.

d) Irrevocable undertaking from the client to treat ADIB-Egypt on Pari-Passu with all existing/future short term financers.

e) In case of submitted cheques or export documents coverage margin is breached, an immediate top up and/or cash payment is to be affected.

f) All financial covenants to remain as previous approval.

g) Sight PN covering total facility.

**C. National Bank of Abu Dhabi (NBAD)**

The National Bank of Abu Dhabi (NBAD) has approved extending the duration / restructuring/ granting the facilities granted to the company as follows:

1. Global limit for DCs (sight/ acceptance &/or avalised drafts) for USD 7.5 Million to finance importation transactions related to the nature of the business.

   a. Submit OD-Export for USD 7.5 Million to refinance importation transactions, and other working capital requirements.

2. One off transaction

   Limit OD-clean for USD 5 Million till 5/7/2016 to refinance Parent Company loan against 110% coverage in EGP

3. Limit for DCs (sight/ acceptance &/or avalised drafts) for USD 5 Million to finance importation transactions related to the nature of the business.

   a. Temp OD for USD 5 Million to temporary refinance DCs under limit 3 until the allocation of foreign currency

   All within limited amounted of USD 17.5 Million.

**General Conditions:**

- The company agreed to apply a debit interest rate being 3% above LIBOR (three months) on the debit balances of the USD and 4% above EUROBOR on the debit balances in Euro.
- NBAD to be in pari passu with other short term lending banks
- TNW (net of dues from related companies, if any) of the company not to fall below USD 52.4 Million.
- Not exceed the leverage ratio 1:2:5 during the period of credit facilities granted by the bank.
- That the assets current ratio to current liabilities not to fall below 1:1 at all-time during the facility period.
- That the total credit facilities granted by the creditor banks to total equity rights does not exceed the ratio of 1:1.5 during the period of the credit facilities granted by the bank.

**D. Ahli United Bank Egypt (AUBE)**

Ahli United Bank Egypt (AUBE) has approved multi-purpose Facility amounting to US$ 10 million (only ten million US Dollars) or its equivalent in L.E. to finance the working investment needs of the company.

**General Conditions:**

- Provide the bank with Legal assignment of fire and theft insurance policy endorsed naming the bank as the first loss payee and beneficiary thereof in respect of the financed amount, the insurance company shall to be acceptable to AUBE and the insurance policy shall cover 110% of the facility amount.
- Provide the bank on a monthly basis with a monthly sales report indicating all placed orders to be completed on the following month signed from the authorized person in the company.
- Provide the Bank with trust receipt equivalent to the value of the refinanced LC and or IDC 5 days before the payment until coverage of 120% of export orders are in place and receipt of inventory position covering the exposure.
- Maximum limit per drawee under export documents and/or LCs and /or purchase orders and /or export contracts is limited to 20% of the limit.
- Provide the bank within 5 working days from booking date under direct utilization of the refinancing line 120% of export documents or confirmed L/Cs for the banks subject to be acceptable by AUBE
- Provide the bank within l0 days from booking date an inventory position to be covering 100% of AUBE's exposure under the time loan Facility.

## 11. CREDITORS AND OTHER CREDIT BALANCES

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Trade payables | **4,050,850** | 7,684,151 |
| Salary & Withholding tax | **324,413** | 322,469 |
| Accrued expenses | **24,935** | 446,346 |
| Social Insurance Authority | **40,598** | 43,025 |
| Accrued interest expense | **229,769** | 271,778 |
| Fixed assets creditors | **94,627** | 197,825 |
| Customers advance payment | **311,977** | 259,528 |
| Dividends payable | **5,939,342** | 3,543,636 |
| Other suppliers | **3,998,903** | 2,230,558 |
| | **15,015,414** | 14,999,316 |

## 12. LONG TERM LOAN

| | **31/3/2016** | | 31/3/2015 | |
|---|---|---|---|---|
| | **Euro** | **Equivalent in US$** | Euro | Equivalent in US$ |
| Loan amount | **33,244,840** | **37,862,548** | 33,244,840 | 35,711,607 |
| Paid installments | **(19,344,981)** | **(22,031,998)** | (15,441,913) | (16,587,702) |
| Outstanding balance | **13,899,859** | **15,830,550** | 17,802,927 | 19,123,905 |
| Total Hermes premium | **1,996,850** | **2,274,212** | 1,996,850 | 2,145,016 |
| Paid installments | **(1,130,276)** | **(1,287,271)** | (887,262) | (953,097) |
| Remaining Hermes premium | **866,574** | **986,941** | 1,109,588 | 1,191,919 |
| **Total long loan balances** | **14,766,433** | **16,817,491** | 18,912,515 | 20,315,824 |

| | 31/3/2016 | | 31/3/2015 | |
|---|---|---|---|---|
| | **Euro** | **Equivalent in US$** | Euro | Equivalent in US$ |
| Total Hermes premium | **(1,996,850)** | **(2,274,212)** | (1,996,850) | (2,145,016) |
| Hermes premium amortization | **1,130,276** | **1,287,271** | 887,262 | 953,097 |
| Hermes premium unamortized | **(866,574)** | **(986,941)** | (1,109,588) | (1,191,919) |
| **Long term loan net balance** | **13,899,859** | **15,830,550** | 17,802,927 | 19,123,905 |
| Classified as follows: | | | | |
| **Current portion of long term loan** | **3,903,067** | **4,445,203** | 3,903,067 | 4,192,675 |
| **Long term loan** | **9,996,792** | **11,385,347** | 13,899,860 | 14,931,230 |

On 18 February 2010, the company entered into a loan agreement with KFW IPEX-Bank GMBH according to the following terms:

**A) Loan approval limit:**

| | 31/3/2016 Euro | 31/3/2015 Euro |
|---|---|---|
| Phase one | **15,000,000** | 15,000,000 |
| Phase two | **22,000,000** | 22,000,000 |
| | **37,000,000** | 37,000,000 |
| Interest | **2,000,000** | 2,000,000 |
| Hermes Premium Phase one | **1,350,000** | 1,350,000 |
| Hermes Premium Phase two | **1,850,000** | 1,850,000 |
| | **5,200,000** | 5,200,000 |
| | **42,200,000** | 42,200,000 |

**B) Interest rate:**

At any time after the date of the end of the Availability Period Phase 1 or the Availability Period Phase 2 respectively, the company has the right to request that the Interest Rate applicable to all outstanding Loan Amounts of the respective Loan Phase shall be converted from a variable interest rate to a fixed interest rate.

**Variable interest rate:**

Calculated on the basis of the Euro LIBOR Reference Rate valid for the relevant Interest Period plus the Margin.

**Fixed interest rate:**

Calculated as the sum of the Lenders' effective funding costs on the capital market for terms which most closely correspond to the relevant repayment Schedule Plus the Margin.

**Commitment fees (other transaction cost):** 1.10 %.

**C) Loan purpose:**

Enabling the Company to pay a maximum of 85% of the payments due under the Supply Contracts and to make respective payments relating to Supply Contracts dealing with the supply of equipment related to the purchase of one BOPET (Biaxially Oriented Polyester) film line and one CPP (Cast Polypropylene) film line.

**D) Repayment:**

Loan shall be repaid over 17 equal consecutive semi-annual Installments. The first repayment Installment shall be on the earlier of:

- The date falling six months after Readiness of Operation Phase 1.
- The date falling six months after Readiness of Operation Phase 2.

## NOTES TO THE FINANCIAL STATEMENTS 31ST MARCH 2016

**E) Guarantees:**

E-1 Unconditional and irrevocable payment guarantee relating to all obligations of the company by Uflex Limited company (the Ultimate Parent Company) in addition to unconditional and irrevocable personal guarantee relating to all company's obligations by Mr. Ashok Chaturvedi (Chairman & Managing Director of the Uflex Limited)-Personal guarantee.

E-2 On 26 July 2010, the company signed a real estate mortgage proxy in favor of KFW bank, which gives KFW bank the right to pledge the factory land as a guarantee against withdrawal loan. On 18 September 2015, KFW bank has waived this mortgage.

E-3 Pledge of the shares held by Flex Middle East FZE. On 30 November 2010, Flex Middle East FZE (the Parent company) signed an agreement for the pledge of shares in favor of KFW bank by which it agreed to execute and deliver a pledge on its shares amounted to 14,999,900 shares with all the warranties, rights, dividends interest and securities attributed thereto as a grantee to the loan (Note 14). This pledge will be released once the Mortgage of Land has been created and registered.

E-4 On 17 October 2010, the company has legalized a commercial pledge of first degree on all tangible and intangible assets in favor of KFW bank, in addition to pledging all the tangible & intangible assets that will be owned in the future by the company.

E-5 95% of the claims arising from this Agreement is guaranteed by Hermes Guarantees. The unrestricted existence of the Hermes Guarantee in respect of Disbursements under Loan shall be a prerequisite for any Disbursements under Loan.

E-6 The Company must not, without the prior written consent of KFW IPEX bank, acquire an asset: that is (and will continue to be at any time after acquisition) subject to an existing Security Interest (except a Permitted Security Interest); or which will become subject to a Security Interest (except a Permitted Security Interest).

E-7 The Company may not create or allow existence of a Security Interest over its assets except for a Permitted Security Interest.

### 13. MEDIUM TERM LOAN

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Loan amount | **21,700,000** | 21,700,000 |
| Paid installments | **(4,018,519)** | (803,704) |
| Outstanding balance | **17,681,481** | 20,896,296 |
| Classified as follows: | | |
| **Current portion of medium term Loan** | **3,214,816** | 3,214,816 |
| **Long portion of medium term Loan** | **14,466,665** | 17,681,480 |
| | **17,681,481** | 20,896,296 |

On 31 July 2014, the company entered into a loan agreement with QNB Al Ahli according to the following main terms:

**A) Loan approval limit:**

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Tranche one | **20,000,000** | 20,000,000 |
| Tranche two | **5,000,000** | 5,000,000 |
| | **25,000,000** | 25,000,000 |

**B) Interests and commissions:**

1. Compound interest is calculated by a margin of 3.65% over the LIBOR every three months and shall be paid at end of each quarter. This pricing can be modified according to the LIBOR movements every three months. Interest rate will be fixed 2 business days before each interest period.
2. Flat fee of 0.4% calculated on the total loan value and is payable in advance upon the utilization of each tranche.

Interests and commissions shall be payable from the date of commencement and are valid during the grace period.

**C) Loan purpose:**

Refinancing the investment cost and CAPEX requirements of Flex P Films (Egypt) during its phase 1 & 2 of its project represented in establishing factory for manufacturing different types of polypropylene film rolls and which was previously financed through Flex Middle East "Parent Company".

**D) Period of loan agreement and method of repayment:**

Validity of the loan agreement is 7 years starting from the signature date of this agreement and ending on 31/7/2021 including 6 months grace period from the date signature.

Loan shall be repaid over 27 equal quarterly installments of US$ 926,000 each.

**E) Securities and guarantees:**

1. Corporate guarantee from Flex Middle East FZE signed by an authorized person to issue the said guarantee, including its commitment to settle any obligations arising out of the facility pursuant to the terms and conditions of this agreement, in an acceptable text to the bank.
2. First degree commercial mortgage on the commercial site under the name of the company in favor of the bank including all the tangible and intangible assets pertaining to the equipments other than the equipment pledged under ECA Funding from KFW IPEX Bank, in addition to ratifying the aforementioned mortgage in the company's commercial register.

## 14. SHARE CAPITAL

**Authorized:**

The authorized capital of the company is L.E. 545,000,000.

| | 31/3/2016 | | 31/3/2015 | |
|---|---|---|---|---|
| | L.E. | Equivalent in US$ | L.E. | Equivalent in US$ |
| **Issued and paid up capital** | | | | |
| 26,800,000 shares of L.E. 10 each | 268,000,000 | 47,914,115 | 268,000,000 | 47,914,115 |

**Distributed among shareholders as follows:**

| | Nationality | Number of issued shares | 31/3/2016 US$ | 31/3/2015 US$ |
|---|---|---|---|---|
| Flex Middle East FZE | United Arab Emirates | 26,799,900 | **47,913,933** | 47,913,933 |
| Mr. Pradeep Tyle | Indian | 50 | **91** | 91 |
| Mr. Ashok Kumar Chaturvedi | Indian | 50 | **91** | 91 |
| | | 26,800,000 | **47,914,115** | 47,914,115 |

Flex Middle East FZE (Parent company) pledged shares in favor of KFW (Note 12 "E-3").

This pledge has been legalized by United Arab Emirates Central bank on 12 December 2010 and Misr for Central Clearing Depository & Registry on 14 December 2010.

## 15. LEGAL RESERVE

As required by the Companies Law No. 159 of 1981 and the company's Articles of Association, 5% of the profit for the year is transferred to the legal reserve. The company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The statutory reserve cannot be distributed except in cases stated in the Law.

## 16. NET SALES

| | 31/3/2016 US$ | 31/3/2015 US$ |
|---|---|---|
| Domestic sales | **37,504,613** | 37,694,543 |
| Export sales | **78,516,847** | 89,944,956 |
| | **116,021,460** | 127,639,499 |
| Domestic sales return | **(281,793)** | (305,820) |
| Export sales return | **(480,382)** | (365,658) |
| | **115,259,285** | 126,968,021 |

## 17. GENERAL AND ADMINISTRATIVE EXPENSES

| | 31/3/2016 US$ | 31/3/2015 US$ |
|---|---|---|
| Salaries and incentives | **696,834** | 664,943 |
| Printing and stationary | **9,631** | 18,892 |
| Postage, phone and fax | **177,328** | 225,709 |
| Traveling and transportation | **102,453** | 176,921 |
| Maintenance | **167,223** | 219,702 |
| Insurance | **110,348** | 102,677 |
| Bank charges | **677,894** | 1,272,309 |
| Professional fees | **190,311** | 437,458 |
| Office supplies and hospitality | **38,958** | 57,683 |
| Software maintenance | **159,410** | 136,778 |
| Depreciation (Note 5) | **247,541** | 283,690 |
| Other | **182,123** | 117,367 |
| | **2,760,054** | 3,714,129 |

## 18. SELLING AND DISTRIBUTION EXPENSES

| | 31/3/2016 US$ | 31/3/2015 US$ |
|---|---|---|
| Salaries and incentives | **466,407** | 285,991 |
| Traveling | **48,394** | 17,751 |
| Freight | **5,003,167** | 5,606,549 |
| Commission | **467,322** | 624,721 |
| Insurance | **346,719** | 309,964 |
| Claim export sales | **75,661** | 215,834 |
| Other | **109,108** | 31,629 |
| | **6,516,778** | 7,092,439 |

## 19. OTHER OPERATING REVENUE

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Scrap sales | **1,619,928** | 2,081,214 |
| Export incentive (subsidies) (*) | **2,394,104** | 4,698,897 |
| Insurance claim received | **31,469** | 52,510 |
| Gain on sale of fixed assets | **17,618** | 8,781 |
| Other revenue | **101,755** | 270,376 |
| | **4,164,874** | 7,111,778 |

(*) Export incentive is recorded on cash basis, i.e. when collected (Note 3k).

## 20. NET FINANCE EXPENSES/ (INCOME)

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| **Finance expenses** | | |
| Finance interest | **3,074,654** | 2,114,647 |
| Foreign currency exchange loss | **885,865** | - |
| Less: | | |
| **Finance income** | | |
| Bank interest | **(914,408)** | (125,895) |
| Foreign currency exchange gain | **-** | (5,559,369) |
| | **3,046,111** | (3,570,617) |

## 21. DEFERRED TAX

Deferred tax assets and liabilities arising from tax differences in the assets and liabilities are as follows:

| | **Assets 31/3/2016 US$** | **(Liabilities) 31/3/2016 US$** | Assets 31/3/2015 US$ | (Liabilities) 31/3/2015 US$ |
|---|---|---|---|---|
| Fixed assets | **-** | **(10,835,414)** | - | (10,699,619) |
| Taxable losses available for carry forward | **2,236,925** | **-** | 5,124,846 | - |
| Unrealized foreign currency losses | **1,650,824** | **-** | - | - |
| Total tax asset / (liability) | **3,887,749** | **(10,835,414)** | 5,124,846 | (10,699,619) |
| Net tax asset / (liability) | **-** | **(6,947,665)** | - | (5,574,773) |
| Net tax income/(expense) in the statement of income | **-** | **(1,372,892)** | - | (1,311,130) |

## 22. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Net profit for the year | **4,648,500** | 5,577,733 |
| Weighted average number of shares outstanding during the year | **26,800,000** | 26,800,000 |
| Earnings per share | **0.173** | 0.208 |

Earnings per share are calculated regardless employees share and Board of Directors remuneration in profit till the general meeting of the company approved the distribution.

## NOTES TO THE FINANCIAL STATEMENTS 31ST MARCH 2016

### 23 TAX STATUS

- ***Corporate Tax***

  The Tax Authority has not inspected the company's books and documents yet, since inception.

  The company submitted the corporate tax return for the year ended 31 March 2015.

  As per tax return for the year ended 31 March 2016, there is no taxable profit.

- ***Salary Tax***

  The company is settling the salary tax and Social insurance regularly.

  The Tax Authority has not inspected the company's books yet, since inception.

- ***Stamp tax***

  The Tax Authority has not inspected the company's books and records yet, since inception.

- ***Sales Tax***

  The company is submitting the sales tax returns regularly.

  The Tax Authority has inspected the company books and documents for period since inception till year ended 31 March 2014. The inspection resulted in a credit balance to be refunded by the company amounted to L.E. 135,293,289.

- ***Withholding Tax***

  The Tax Authority has not inspected the company's books and records yet. The company has settled the withholding tax due up to the fourth quarter for year 2015.

### 24. RECONCILIATION TO CALCULATE THE EFFECTIVE INCOME TAX RATE

| | **31/3/2016 US$** | 31/3/2015 US$ |
|---|---|---|
| Net accounting profit before tax | **6,021,392** | 6,888,863 |
| Enacted tax rate | **22.5%** | 29.2742% |
| Calculated income tax according to income tax law | **1,354,813** | 2,016,659 |
| Provisions effect/ bad debts | **16,544** | 241,802 |
| Depreciations differences | **(131,831)** | (465,674) |
| Non taxable gain on sale | **(3,964)** | (2,570) |
| Non deductible unrealized foreign currency losses | **1,650,824** | - |
| Non deductible expenses of fixed assets | **1,535** | 2,149 |
| Accumulated taxable losses | **(9,941,887)** | (22,777,095) |
| Income tax according to statement of income | **-** | - |

### 25. CONTINGENT LIABILITIES

Contingent liabilities represent the following:

- Letter of guarantee by an amount of L.E. 2,883,945 (equivalent to: US$ 324,586) issued in favor of General Manager of Sokhna Customs (Note 8).
- Letters of guarantee by an amount of L.E. 2,276,000 (equivalent to: US$ 256,162) issued in favor of the Central Unit of the Temporary Release Taxes (Note 8).

### 26. FAIR VALUE

The fair values of financial assets and liabilities are not materially different from their carrying value at the financial statements date.

**FLEX P. FILMS (EGYPT) S.A.E.**

*Wholly Owned Subsidiary Company of Flex Middle East FZE*