



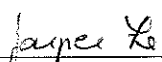
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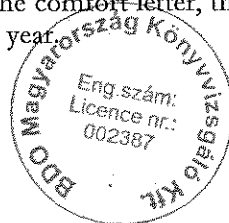
BDO Magyarország  
Könyvvizsgáló Kft.  
1103 Budapest  
Kőér utca 2/A. C. épület  
1476 Budapest, Pf.138.

## Auditor's Report

23 May 2016

1. We have audited the attached Balance Sheet of **EKC Hungary Kft**, (the 'Company') as at March 31, 2016, and also the Statement of Profit and Loss and the Balance Sheet for the year then ended annexed thereto (collectively referred as the 'financial statements'). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in Hungary. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. Further to our comments in the Annexure referred to above, we report that:
  - a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - b. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - c. The financial statements dealt with by this report are in agreement with the books of account;
  - d. In our opinion and to the best of our information and according to the explanations given to us, the financial statements dealt with by this report comply with the accounting standards issued by the Institute of Chartered Accountants of Hungary, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in Hungary, in the case of:
    - i) the Balance Sheet, of the state of affairs of the Company as at March 31, 2016;
    - ii) the statement of profit and loss, of the profit/loss for the year ended on that date.
  - e. Without qualifying our opinion we would like to draw attention we have asked and received comfort letter from the owner due to the loss-making operation and the significant debt. In the comfort letter, the owners support the operating of the Company during the following year.

  
Zsuzsanna Jasper  
Certified Auditor



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Fővárosi Bíróság Cégbírósága, Cégjegyzékszám: Cg. 01-09-867785

Csoportazonosító (Group-ID-Id): 177807-5-44  
Group VAT Id.: HU1778011

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EKC Hungary Kft.  
 Financial Reporting Information / Balance Sheet, in USD  
 as of 31 March 2016

Balance sheet

	<u>31.03.2016</u>	<u>31.03.2015</u>
<b>Intangible assets</b>	3 778 884	5 593 526
<b>Long term investments</b>	9 000 000	9 000 000
<i>Loans to related parties</i>	0	0
<i>Trade receivables, related parties</i>	4 371 382	3 544 848
<i>Other receivables</i>	26 842	31 024
<i>Cash and cash equivalent</i>	1 235	5 924
<b>Current assets</b>	4 399 459	3 581 796
<b>TOTAL ASSETS</b>	<u>17 178 343</u>	<u>18 175 321</u>
<i>Issued capital</i>	7 689 152	7 689 152
<i>Retained earnings</i>	(6 794 213)	(5 801 768)
<b>Shareholders equity</b>	894 938	1 887 384
<i>Long term borrowings from banks</i>	0	0
<i>Long term borrowings from related parties</i>	16 273 096	16 273 096
<b>Long term liabilities</b>	16 273 096	16 273 096
<i>Short-term loans</i>	205	0
<i>Trade payables</i>	0	4 286
<i>Other short term liabilities and accruals</i>	10 103	10 554
<b>Short term liabilities</b>	10 308	14 840
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>17 178 343</u>	<u>18 175 321</u>

Date: 23 May 2016

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EKC Hungary Kft.  
Financial Reporting Package / Income Statement, in USD  
for the period ended 31 March 2016

Income statement

	<u>31.03.2016</u> <u>12 months</u>	<u>31.03.2015</u> <u>12 months</u>
Net sales	811 092	771 070
Cost of services	(25 578)	(25 690)
Depreciation	(1 814 642)	(1 810 914)
Other incomes & expenses (net)	(16 324)	(19 961)
Financial incomes & expenses (net)	54 660	32 617
Tax expense	(1 654)	(1 632)
Profit (loss) for the period	<u>(992 446)</u>	<u>(1 050 511)</u>

Date: 23 May 2016

  
signature 

Notes

General Information

EKC Hungary Kft (the "Company") was incorporated in Hungary, on 8 April 2008 with the objective to acquire, or merge with, an operating business. EKC Hungary Kft acquired CP Industries Holdings Inc and holds 100% shares in it. Together EKC Hungary Kft and CP Industries Holdings Inc acquired the assets of CP Industries from Reunion. Intellectual properties related to the transaction were purchased by EKC Hungary Kft, which receives royalty for the usage of the IPs from CP Industries Holdings Inc.

The Company is owned by EKC International FZE (100%).  
Its registered seat is Hungary, 1102 Budapest, Kőr u 2/A. C ép.

This reporting package is unconsolidated, and contains the transactions with all the subsidiaries and parent companies of EKC Hungary Kft.

Summary of significant accounting policies

Foreign Currency Translation

The United States Dollar (USD) is the functional currency for all of the Company's businesses in its operations in Hungary. The financial reporting package is presented in US Dollars (USD), which is the Company's presentation currency.

Foreign currency denominated assets and liabilities for this unit are translated into USD based on exchange rates prevailing at the end of each period presented, and revenues and expenses are translated at exchange rates published by the National Bank of Hungary valid for the date of the transactions.

Fixed assets

Fixed assets are presented at net carrying amount which is the purchase price decreased with the accumulated depreciation and impairment. The depreciation rates applied at EKC Hungary Kft, are:

- Intellectual property 10%


Depreciation is recorded commencing the date the assets are placed in service and is calculated using the straight line basis over their estimated useful lives.

Investments

Investments are valued at acquisition cost. Impairment is required to account for if the net realizable value of the investment is lower than its book value. Net realizable value is the fair value of the investment. Fair value may be based on the stock quote at listed companies, or the total equity / issued capital ratio at non-listed companies. However, the projected development of the investee, the market value of the net assets also might be taken into consideration for impairment accounting.

Trade receivables

Accounts receivable are stated at historical value, which approximates fair value. The group does not require collateral for accounts receivable. Accounts receivable are reduced by an allowance for amounts that may be uncollectible in the future. This estimated allowance is determined by considering factors such as length of time accounts are past due, historical experience of write offs, and customers' financial condition.

*Erőteljes*  


**Revenue recognition**

Sales are recognized when there is evidence of a sales agreement, the delivery of the goods or services has occurred generally upon shipment of product to customers and transfer of title under standard commercial terms.

Sales are measured based on the net amount billed to a customer. Generally there are no formal customer acceptance requirements or further obligations. Customers do not have a general right of return on products shipped therefore no provisions are made for return.

**Fixed assets**

	31 March 2016	31 March 2015
Intellectual properties	18 109 143	18 109 143
Total	18 109 143	18 109 143
Less: accumulated depreciation	(14 330 259)	(12 515 617)
Net carrying amount	3 778 884	5 593 526

On 28 February 2008 Reunion Industries and CP Industries Holdings Inc. entered into certain Asset Purchase Agreement. The Purchase Agreement required Reunion Industries to assign to CP Industries Holdings Inc or its nominee the purchased Intellectual Property. CP Industries Holdings assigned to EKC Hungary Kft. all of its right, title, benefit, privileges and interest in and to purchase and assume the IP Rights and IP Liabilities directly from Reunion Industries.

Intangible assets assigned to EKC Hungary Kft. are:

- trade name	9 423 069
- software	797 403
- licenses/certification	107 419
- non-compete	1 352 109
- customer list	5 912 115
- additional items eligible for capitalization	327 028
Total	18 109 143

**Investments**

EKC Hungary owns shareholding in the following companies:

Name	Country	Participation
CP Industries Holdings Inc	USA	100%

The carrying amount of the equity investments is as follows:

	31 March 2016	31 March 2015
Acquisition cost	9 000 000	9 000 000
Impairment	0	0
Net carrying amount	9 000 000	9 000 000

CP Industries Holdings Inc was incorporated in the USA (Delaware) on 27 February 2008. On 10 April 2008 EKC Hungary Kft and CP Industries Inc entered into equity investment contract, and subsequently EKC Hungary Kft. became 100% owner of CP Industries Holdings Inc. On 15 April 2008 EKC Hungary Kft. transferred the amount of equity investment, and CP Industries Holdings Inc became wholly owned subsidiary.



Long term loans

	31 March 2016	31 March 2015
<i>CP Industries Holdings Inc</i>		
principal	0	0
interest	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

On 27 December 2011 EKC Hungary Kft, and CP Industries Holdings Inc. entered into loan contract based on which CP Industries may utilize USD 3,000,000 in one or more tranches. The loan is unsecured, and bears interest of 3M US LIBOR + 1% p.a.

On 4 January 2012 USD 1,200,000 was transferred to CP Industries Holdings Inc.

As of 30 June 2012 EKC Hungary and CP Industries entered into a set-off agreement of USD 1,204,569 based on which the long term loan and its receivable interest was cleared off.

Trade and other receivables

	31 March 2016	31 March 2015
<i>Trade receivables, related parties</i>		
CP Industries Holdings Inc	4 343 487	3 522 395
interest on long term trade receivables	27 896	12 451
<b>total</b>	<b>4 371 382</b>	<b>3 544 848</b>
<i>Other receivables</i>		
Advance payment	0	0
VAT receivable	10 002	9 131
Local tax receivable	9 992	18 090
Corporate income tax receivable	593	832
Innovation contribution	1 241	2 961
Other	11	11
<b>total</b>	<b>26 842</b>	<b>31 024</b>

As of 30 Oct 2012 EKC Hungary and CP Industries entered into a set-off agreement of USD 1,745,828.03 based on which the foreign accounts payable and its receivable interest was cleared off.

Borrowings from related parties

	31 March 2016	31 March 2015
<i>CP Industries Holdings Inc</i>		
principal	0	0
interest	0	0
<b>total</b>	<b>0</b>	<b>0</b>
<i>EKC International FZE</i>		
principal	15 755 715	15 755 715
interest	517 381	517 381
<b>total</b>	<b>16 273 096</b>	<b>16 273 096</b>
<b>TOTAL</b>	<b>16 273 096</b>	<b>16 273 096</b>

*Comptroller*  


EKC Hungary Kft and CP Industries Holdings Inc executed notes receivable on 18 April 2008 amounted USD 8,109,144. The interest rate of 3% had been applied on the loan until the period ended 30 June 2009. Parties agreed on modifying the interest rate to LIBOR + 1%. The amendment has been drawn in the quarter ended 30 September 2009 and is effective retrospectively from 1 April 2009. The effect of the difference is not significant, and was recorded in the quarter ended 30 September 2009. In the period ended 31 December 2010 CP Industries Holdings Inc and EKC Hungary Kft set off USD 5,375,000, and accordingly the borrowing from CP Industries Holdings Inc reduced.

On 12 April 2008 EKC International FZE and EKC Hungary Kft entered into a loan agreement of USD 18,300,000. The loan bears an interest rate of 3M LIBOR + 1% per annum. The loan is repayable at any time. Interest shall be paid only along with principal whenever repayment is made.

As from 1 April 2010 EKC International FZE and EKC Hungary decided on waiving interest on the loan provided to EKC International FZE. The outstanding loan receivable was set-off against borrowing from EKC International FZE.

As of 30 June 2012 EKC Hungary and CP Industries entered into a set-off agreement of USD 1,204,589 based on which the borrowing and its payable interest was reduced.

As of 30 Oct 2012 EKC Hungary and CP Industries entered into a set-off agreement of USD 1,745,028.03 based on which the long term loan and its receivable interest was cleared off. With this agreement the long term loan receivable is repaid.

#### Short term loan

The short-term loan contains a bank account with debit balance as of 31 March 2016.

<u>Trade and other payables</u>	<u>31 March 2016</u>	<u>31 March 2015</u>
Trade payables	0	4 286
	<u>0</u>	<u>4 286</u>
<u>Other liabilities</u>		
Audit fee	3 375,00	3 375
Accounting fee	1 395,00	1 395
Seal using fee	390,00	390
Innovation contribution	0,00	703,6
Local tax	0 503,00	4 691
Other		<u>0</u>
Total	<u>10 103</u>	<u>10 554</u>

The innovation contribution and the local tax were realized as receivables, so these items are in the FS as taxes with debit balance.

#### Net sales


The net sales of the company is coming from the IP licence fee (royalty income) from CP Industries Holdings Inc.

#### Cost of services

As of for the period ended 31 March 2016 cost of services consisted of the following:

	<u>1 months 31 March 2016</u>	<u>12 months 31 March 2016</u>	<u>2 months 31 March 2015</u>	<u>12 months 31 March 2015</u>
Storage cost	0	(80)	0	0
Accounting service	(1 395)	(5 580)	(1 395)	(5 580)
Audit fee	(3 375)	(1) 500)	(3 375)	(1) 500)
Lawyer fee	(645)	(1 860)	(390)	(2 460)
Financial and investment service cost	(1 175)	(4 242)	(1 172)	(3 933)
Others	(18)	(26)	(119)	(117)
Total	<u>(6 578)</u>	<u>(25 578)</u>	<u>(6 371)</u>	<u>(25 690)</u>

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### Other incomes and expenses

Other incomes and expenses consisted the followings:

	1 months 31 March 2016	12 months 31 March 2016	3 months 31 March 2015	12 months 31 March 2015
Local business tax	(4 943)	(15 314)	1 923	(13 762)
Innovation contribution	0	(506)	288	(2 068)
Others	0	0	(63)	(115)

Local business tax is payable for the local municipality. The basis of the tax is the net sales less cost of material and cost of goods and services sold. The applicable tax rate is 2%.  
The Company is non-committed to pay innovation contribution, so the prior provisions were ceased.

### Finance result

	1 months 31 March 2016	12 months 31 March 2016	3 months 31 March 2015	12 months 31 March 2015
Interest income from (+) related parties				
CP Industries Holdings Inc	17 313	55 443	9 066	39 498
EKC International FZE	0	0	0	0
Total	17 313	55 443	9 066	39 498
third parties	0	0	0	0
Total	17 313	55 443	9 066	39 498
Interest expense to (-) related parties				
CP Industries Holdings Inc	0	0	0	0
EKC International FZE	0	0	0	0
Total	0	0	0	0
third parties	(1)	(2)	0	(1)
Total	(1)	(2)	0	(1)
Dividend received from (+) or paid to (-) related parties				
CP Industries Holdings Inc	0	0	0	0
Total	0	0	0	0
Foreign exchange gain/loss (net)	(767)	(781)	(6 687)	(6 879)
Finance result	16 545	54 660	2 379	32 617

At the year end of 31 March 2016 the non-realized foreign currency revaluation was not calculated.

### Exceptional and extraordinary items

No exceptional and extraordinary items have incurred for the period ended 31 March 2016.

### Tax expense

Minimum corporate tax was determined in amount of 1.654 USD

Date: 23 May 2016

  
signature

