

IMPCO, S. DE R.L. DE C.V.

Financial Statements

June 30, 2015 and 2014

(With the Independent Auditor's Opinion Thereon)

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INDEPENDENT AUDITOR'S REPORT

(In thousands of Mexican pesos)

The Board of Managers
Impco, S. de R.L. de C.V.:

We have audited the accompanying financial statements of Impco, S. de R.L. de C.V. (the Company), which comprise the balance sheet as of June 30, 2015, and the statements of comprehensive income, changes in partners' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with Mexican Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation 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 audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statements are free from material misstatement.

An audit consists of examining, on a test basis, evidence supporting the figures 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 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 the accounting policies used and the 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.

Basis for Qualified Opinion

The accompanying balance sheets reflect an increase in the value of land, in the amount of \$58,339, based on an external appraisal. Mexican Financial Reporting Standards do not allow this accounting procedure.

The accompanying statements of comprehensive income present the total annual depreciation expense of \$4,636 for the year ended June 30, 2015, as a separate line item under equity in the results of operations of subsidiary company. Based on Mexican Financial Reporting Standards, depreciation expense for the year ended June 30, 2015 should have been allocated \$4,404 to cost of goods sold and \$232 to operating expenses.

(Continued)

We were appointed to audit the financial statements of the Company as of and for the year ended June 30, 2015 on a date subsequent to June 30, 2015 for the first time as per requirement of the parent company. The financial statements of the Company as of and for the year ended June 30, 2014 were not audited by us. We were not able to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories appearing in the balance sheet as of June 30, 2015 and 2014. Additionally, as of June 30, 2015 and 2014, no unit cost was assigned to inventories (initially recognized using standard cost valuation method), using any of the following cost allocation formulas allowed by Mexican Financial Reporting Standards: specific identification, weighted average or first in first out (FIFO).


Qualified Opinion

In our opinion, except for the effects on the financial statements of the issues mentioned on the fifth, sixth and seventh paragraphs, the accompanying financial statements present fairly, in all material respects, the financial position of Impco, S. de R.L. de C.V. as of June 30, 2015, and its comprehensive income, its changes in partners' equity and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards.

Emphasis Matter

The financial statements of Impco, S. de R.L. de C.V. as of June 30, 2014 and for the year then ended, included for comparative purposes, were not audited, and as such we do not express any opinion on these financial statements.

DFK / Llaena y Asociados, S.C.



C.P.C. Salvador Llaena Menard

August 6, 2015

IMPCO, S. DE R.L. DE C.V.

Balance Sheets

June 30, 2015 and 2014

(In thousands of Mexican pesos)

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,646	7,119
Accounts receivable (note 5)	73,548	88,637
Inventories (note 6)	55,931	37,674
Total current assets	132,125	133,430
Property, machinery and equipment, net (note 8)	78,357	84,117
Deferred employee statutory profit sharing (note 13)	3,983	-
	<u>\$ 214,465</u>	<u>217,547</u>
Liabilities and Partners' Equity		
Current liabilities:		
Loans payable to related parties (note 9)	46,096	50,775
Accounts payable:		
Trade accounts payable	11,371	5,833
Other liabilities	20,878	26,000
Accruals	18,329	17,862
Total current liabilities	96,674	100,470
Employee benefits (note 10)	17,426	15,557
Total liabilities	<u>114,100</u>	<u>116,027</u>
Partners' equity:		
Share capital (note 11)	1,000	1,000
Retained earnings	99,452	100,520
Net equity in the other comprehensive results of operations of subsidiary company (note 7)	(87)	-
Partners' equity	<u>100,365</u>	<u>101,520</u>
	<u>\$ 214,465</u>	<u>217,547</u>

See accompanying notes to financial statements.

IMPCO, S. DE R.L. DE C.V.

Statements of Comprehensive Income

Years ended June 30, 2015 and 2014

(In thousands of Mexican pesos)

	2015	2014
Net revenues (note 12)	\$ 190,910	214,506
Cost of goods sold	<u>135,940</u>	<u>158,324</u>
Gross profit	<u>54,970</u>	<u>56,182</u>
Operating expenses:		
General and administrative	16,190	13,932
Selling	<u>23,832</u>	<u>25,933</u>
Total operating expenses	<u>40,022</u>	<u>39,865</u>
Operating income	<u>14,948</u>	<u>16,317</u>
Comprehensive financial results:		
Financial income	187	48
Financial expenses	(2,593)	(4,365)
Foreign exchange loss, net	<u>(9,061)</u>	<u>(1,690)</u>
Comprehensive financial results, net	(11,467)	(6,007)
Equity in the results of operations of subsidiary company (note 7)	<u>87</u>	<u>-</u>
Income before depreciation and taxes on earnings	3,481	10,310
Depreciation expense (note 8)	<u>(4,636)</u>	<u>(5,785)</u>
Income (loss) before taxes on earnings	(1,068)	4,525
Taxes on earnings (note 13)	<u>-</u>	<u>15,723</u>
Net income (loss)	(1,068)	20,248
Other comprehensive results:		
Equity in the other comprehensive results of operations of subsidiary company (note 7)	<u>(87)</u>	<u>-</u>
Comprehensive income (loss)	\$ <u>(1,155)</u>	<u>20,248</u>

See accompanying notes to financial statements.

IMPCO, S. DE R.L. DE C.V.

Statements of Changes Partners' Equity

Years ended June 30, 2015 and 2014

(In thousands of Mexican pesos)

	Share capital	Retained earnings	Net equity in the other comprehensive results of operations of subsidiary company	Total partners' equity
Balances at June 30, 2013	\$ 1,000	80,272	-	81,272
Comprehensive income	<u>-</u>	<u>20,248</u>	<u>-</u>	<u>20,248</u>
Balances at June 30, 2014	1,000	100,520	-	101,520
Comprehensive loss	<u>-</u>	<u>(1,068)</u>	<u>(87)</u>	<u>(1,155)</u>
Balances at June 30, 2015	<u>\$ 1,000</u>	<u>99,452</u>	<u>(87)</u>	<u>100,365</u>

See accompanying notes to financial statements.

IMPCO, S. DE R.L. DE C.V.

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands of Mexican pesos)

	2015	2014
Cash flows from operating activities:		
Income (loss) before taxes on earnings	\$ (1,068)	4,525
Items related to investing activities:		
Net equity in the other comprehensive results of operations of subsidiary company	(87)	-
Depreciation and amortization	4,636	5,785
Loss (gain) on disposal of property, machinery and equipment, net	(3,519)	296
Interest income	(187)	(48)
Items related to financing activities:		
Interest expense	2,593	4,365
Subtotal	2,368	14,923
Accounts receivable	15,089	(3,957)
Inventories	(18,257)	10,287
Deferred employee statutory profit sharing	(3,983)	-
Accounts payable	8,112	(36,474)
Employee benefits	1,869	868
Net cash provided by (applied in) operating activities	5,198	(14,353)
Cash flows from investing activities:		
Capital expenditures	(301)	(1,306)
Proceeds from sale of property, machinery and equipment	4,944	1,845
Proceeds from interest income	187	48
Net cash provided by investing activities	4,830	587
Cash to be provided by (applied in) financing activities	10,028	(13,766)
Cash flows from financing activities:		
Proceeds from loans	8,369	102,731
Principal payments on loans	(21,394)	(82,514)
Interest payments on loans	(1,476)	(743)
Net cash provided by (applied in) financing activities	(14,501)	19,474
Net increase (decrease) in cash and cash equivalents	(4,473)	5,708
Cash and cash equivalents at beginning of year	7,119	1,411
Cash and cash equivalents at end of year	\$ 2,646	7,119

See accompanying notes to financial statements.

IMPCO, S. DE R.L. DE C.V.

Notes to Financial Statements

June 30, 2015 and 2014

(All amounts in thousands of Mexican pesos)

1. Nature of Operations and Summary of Significant Accounting Policies

The primary business of the Company is the manufacturing and sales of evaporative air coolers and heaters. Up to August 24, 2009, Impco, S. de R.L. de C.V. (the Company) was a Mexican subsidiary of Adobe Air, Inc. On that date they transferred their full share capital of the Company to Sylvan Holdings PTE LTD.

A description of the accounting policies and practices followed by the Company in the preparation of its financial statements follows:

a) Authorization and basis of preparation

On July 24, 2015, Arturo Silva Vega, Financial Director, authorized the issuance of the accompanying financial statements and its notes.

Except for what is mentioned on notes 1 f) and 8, the accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (FRS). The preparation of the financial statements requires estimates and assumptions from management of the Company, to revalue some financial statement accounts and to make the required disclosures. Actual results might differ from such estimates and assumptions.

b) Cash and cash equivalents

Consist mainly of bank deposits in checking accounts and other highly liquid instruments. Cash and cash equivalents are stated at nominal value, and any fluctuations in value are recognized in income for the period.

c) Transactions in foreign currency

Transactions in currencies other than the Mexican peso are converted at the rate of exchange ruling at the transaction date. At the balance sheet date, foreign currency monetary assets and liabilities, are converted at the rate of exchange ruling at that date. Resulting exchange differences are recognized in the income for the period.

d) Taxes on earnings

Taxes on earnings payable for the year are determined in conformity with tax regulations in force.

Deferred taxes on earnings are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating loss carryforwards and tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income 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.

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IMPCO, S. DE R.L. DE C.V.**Notes to Financial Statements**

(All amounts in thousands of Mexican pesos)

e) Employee statutory profit sharing (ESPS)

Is recorded in the results of the year in which it is incurred and presented under other income and expenses in the accompanying statements of comprehensive income. Deferred ESPS is derived from temporary differences that results comparing the accounting and tax basis of assets and liabilities. Deferred ESPS is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

f) Inventories

Inventories are valued at the lowest of standard cost or market.

g) Property, machinery and equipment

Are recorded at cost. Depreciation is calculated according to the straight line method based on the total life of the assets as follows:

	Annual percentage depreciation
Buildings	5%
Machinery and equipment	8%
Transportation equipment	25%
Furniture and fixtures	10%

h) Impairment of long-lived assets in use

The Company reviews long-lived assets for impairment when events or changes in business conditions indicate that their full carrying value may not be recovered. The Company considers assets to be impaired if expected associated cash flows are less than carrying value. Once the impairment is determined, the assets are written down to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. As of June 30, 2015 and 2014, there were no impairment losses recognized for long-lived assets.

i) Permanent investments

Permanent investment in subsidiary company in which the Company holds 100% of its capital stock is accounted for by the equity method based on the financial statements of the investee.

j) Revenue recognition

Sales revenues are recognized when title passes to customers based on the terms of the sale.

k) Warranties

The Company provides product warranties against manufacturing defects. Provisions for estimated expenses related to such product warranties are recorded at the time the product is sold.

l) Employee benefits

Termination benefits for reasons other than restructuring and retirement to which employees are entitled are charged to operations for each year, based on actuarial computations using the projected unit credit method.

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Notes to Financial Statements

(All amounts in thousands of Mexican pesos)

m) Comprehensive financial results (CFR)

The CFR includes interest income and expenses, and foreign exchange gains and losses.

n) Contingencies

Liabilities for contingencies are recognized when a loss is probable and estimable. When there are no reasonable elements, a disclosure in a qualitative manner is included in the notes to the financial statements. Revenues, income and contingent assets are recognized at the moment of practically complete certainty of its realization.

o) Use of estimates

Preparation of financial statements require that management make estimates and assumptions which affect the amounts recorded as assets and liabilities and the disclosure of contingent assets and liabilities as of the financial statements date, as well as the amounts recorded as revenues and expenses during the period. Actual results could differ from these estimates and assumptions.

p) Comprehensive income or loss

Comprehensive income or loss incorporates current year net income or loss, plus equity in the other comprehensive results of operations of subsidiary company.

2. Accounting Changes

The Mexican Board of Financial Reporting Standards (CINIF), is the organization responsible for issuing the FRS.

a) The CINIF has issued the FRS listed below:

- **FRS C-11 "Stockholders' equity"**

FRS C-11 is effective for years beginning January 1, 2014, and is applicable retrospectively. FRS C-11 supersedes Bulletin C-11 "Stockholders' equity" and Circular 38 "Temporary acquisition of treasury stock" and Circular 40 "Accounting treatment of stock issuance and placement costs". Some of the main aspects resulting from the adoption of this FRS are as follows:

- ✓ FRS C-11 requires that in order to capitalize the advances for future capital stock increases, at the stockholders' or partners' meeting it shall be agreed that such advances be applied for future capital stock increases and also, the price per share to be issued pursuant to such contributions shall be fixed. Furthermore, it shall be agreed that these contributions shall not be refunded before being capitalized.
- ✓ FRS C-11 broadly identifies financial instruments with characteristics of equity which would otherwise, be regarded as liabilities. However, the specific standard that classifies financial instruments as either equity or liabilities, within the same compound financial instrument, is FRS C-12 "Financial instruments with characteristics of liabilities and equity".

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IMPCO, S. DE R.L. DE C.V.

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(All amounts in thousands of Mexican pesos)

- b) In December 2013 the CINIF issued the document referred to as "2014 FRS Improvements", which contains precise modifications to some FRS. The modifications that bring about accounting changes are listed below:

- **FRS C-5 "Prepayments"**

FRS C-5 provides that amounts paid in foreign currency be recognized at the exchange rate in force as of the transaction date, and shall not be modified as a result of foreign exchange fluctuations between the functional currency and the foreign currency in which the prices of goods and services regarding such prepayments are denominated. Additionally, it provides that impairment losses arising from prepayments, as well as the reversal of such losses, shall be reported as part of the net income or loss for the period. These improvements are effective for years beginning January 1, 2014, and the resulting accounting changes shall be recognized retrospectively.

- **Bulletin C-15 "Impairment or disposal of long-lived assets"**

Bulletin C-15 provides that the impairment loss for a long-lived asset in use, as well as the reversal thereof, and the impairment loss of long-lived, available-for-sale assets, including increases or decreases, shall be reported in the results of operations for the period, under the line items of costs and expenses, where depreciation and amortization is recognized. The impairment loss and reversal thereof, for indefinite-lived intangible assets, including goodwill, shall be presented in the results of operations for the period, under the line item for depreciation and amortization expenses on assets of the cash generating unit to which such tangible assets relate. Under no circumstances shall impairment losses be presented as part of the expenses that have been capitalized in the value of a certain asset.

Likewise, it sets out that in order to report the impairment losses of associates, joint ventures and other permanent investments, and the goodwill thereof, the provisions of FRS C-7 shall be complied with. FRS C-7 provides that impairment losses be recognized under the line item equity in the net income or loss of other entities.

Additionally, Bulletin C-15 sets out that assets and liabilities identified with discontinued operations shall be presented in the statement of financial position, grouped in a single line item of assets and a single line item of liabilities, classified as short-term, and shall not be offset between them. Furthermore, such items shall be reported as long-term in the event of sale agreements that are essentially purchase options and sale - leaseback agreements. It also provides that the entity shall not restate previously issued statements of financial position as a result of such reclassification.

These improvements are effective for years beginning January 1, 2014, and any resulting presentation changes shall be recognized retrospectively.

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(All amounts in thousands of Mexican pesos)

- **FRS B-3 "Statement of comprehensive income", FRS B-16 "Financial statements of non-profitable entities", FRS C-6 "Property, plant and equipment", FRS C-8 "Intangible assets", Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments" and FRS D-3 "Employee benefits"**

The improvements of these standards are aimed at performing the modifications related to the presentation of certain transactions that were previously recognized under the line item of other income and expenses, as the presentation of such line item ceased to be required after the new FRS B-3 became effective. These improvements are effective for years beginning January 1, 2014 and the resulting presentation changes shall be recognized retrospectively.

3. Foreign Currency Balances

As of June 30, 2015 and 2014, the U.S. dollar equivalent of monetary assets and liabilities in foreign currency are as follows:

	In thousands of U.S. dollars	
	2015	2014
Monetary assets	\$ 618	810
Monetary liabilities	<u>3,890</u>	<u>4,164</u>
Net monetary liability position	\$ <u>(3,272)</u>	<u>(3,354)</u>

At June 30, 2015 and 2014, the exchange rate was \$15.95 and \$13.24 Mexican pesos to the U.S. dollar, respectively. At August 6, 2015, date of the auditors' report, the exchange rate was \$16.38 Mexican pesos to the U.S. dollar.

4. Related Parties Transactions

Transactions with related parties for the years ended June 30, 2015 and 2014, are as follows:

	2015	2014
Sales of inventory	\$ 7,161	9,897
Inventory purchases	34,392	35,448
Interest expense	<u>2,585</u>	<u>4,365</u>

5. Accounts Receivable

As of June 30, 2015 and 2014, accounts receivable is made up as follows:

	2015	2014
Trade	\$ 59,571	64,637
Symphony USA, Inc. – related party	9,822	10,718
Recoverable value added taxes	3,030	5,985
Other recoverable taxes	413	6,310
Other	<u>712</u>	<u>987</u>
Total	\$ <u>73,548</u>	<u>88,637</u>

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IMPCO, S. DE R.L. DE C.V.**Notes to Financial Statements**

(All amounts in thousands of Mexican pesos)

6. Inventories

As of June 30, 2015 and 2014, inventories is made up as follows:

		2015	2014
Finished products	\$	42,867	23,108
Work in process		5,243	356
Raw materials		<u>8,621</u>	<u>14,810</u>
		56,731	38,274
Less allowance for obsolete and slow-moving Inventory		<u>(800)</u>	<u>(600)</u>
Total	\$	<u><u>55,931</u></u>	<u><u>37,674</u></u>

7. Permanent Investments

As of June 30, 2015 and 2014, the investments in subsidiary company is represented by equity in the following U.S. company:

Subsidiary	%	Equity in net assets		Net equity in comprehensive income for the year	
		2015	2014	2015	2014
Symphony USA, Inc.	100	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Certain condensed financial information of the balance sheet and statement of comprehensive income of the investee, as of June 30, 2015 and 2014, is presented below:

	2015	2014
Current assets	\$ 10,087	10,975
Property, machinery and equipment	<u>199</u>	<u>139</u>
Total assets	10,286	11,114
Current liabilities	<u>10,653</u>	<u>11,388</u>
Shareholders' equity (deficit)	<u>(367)</u>	<u>(274)</u>
Net sales	\$ 13,018	13,126
Gross profit	4,929	4,967
Net income	255	371
Comprehensive income (loss)	<u>(93)</u>	<u>263</u>

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Notes to Financial Statements
(All amounts in thousands of Mexican pesos)

8. Property, Machinery and Equipment

As of June 30, 2015 and 2014, property, machinery and equipment is made up as follows:

	2015	2014
Land	\$ 69,867	69,867
Buildings	24,167	24,167
Machinery and equipment	179,110	194,450
Transportation equipment	5,214	5,274
Furniture and fixtures	11,257	11,152
	289,615	304,910
Less accumulated depreciation	(211,258)	(220,793)
Property, machinery and equipment, net	\$ <u>78,357</u>	<u>84,117</u>

During calendar year 2010, the Company recorded an increase in the value of land in the amount of \$58,339, based on an external appraisal. FRS do not allow this accounting procedure.

The accompanying statements of comprehensive income present the total annual depreciation expense of \$4,636 in 2015 and \$5,785 in 2014 as a separate line item under equity in the results of operations of subsidiary company. Based on Mexican Financial Reporting Standards, 2015 depreciation expense should have been allocated \$4,404 to cost of goods sold and \$232 to operating expenses; 2014 depreciation expense should have been allocated \$5,483 to cost of goods sold and \$302 to operating expenses.

9. Loans Payable to Related Parties

As of June 30, 2015 and 2014, loans payable to related parties is made up as follows:

	2015	2014
Loan payable to Sylvan Holdings PTE LTD - related party ⁽¹⁾	\$ <u>46,096</u>	<u>50,775</u>

⁽¹⁾ As of June 30, 2015 and 2014, an interest expense accrual of \$15,949, and \$12,338, respectively, related to the loan, is included on accounts payable – accruals, on the accompanying balance sheets.

10. Employee Benefits

The Company has a non-contributory retirement plan covering all of its employees. Pension benefits are based on years of service and the employee's compensation. Such plan also includes seniority premiums and severance payments upon involuntary termination. Pension and statutory severance benefits are not funded.

The present values of the net projected liability on these obligations as of June 30, 2015 and 2014 are \$17,426 and \$15,557, respectively.

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(All amounts in thousands of Mexican pesos)

Net discount rates used in actuarial calculations were as follows:

	2015	2014
	%	%
Discount of the project benefit obligation at present value	6.5	6.5
Salary increase	4.0	4.0

Net period cost determined for 2015 and 2014 was \$2,060 and \$2,672, respectively.

Under Mexican legislation, the Company must make payments equivalent to 2% of its workers' daily integrated salary (ceiling) to a defined contribution plan that is part of the retirement savings system. The expense for the years ended June 30, 2015 and 2014 was \$528 and \$489, respectively.

11. Share Capital

As of June 30, 2015 and 2014, share capital is represented by two social parts as follows:

	2015		2014	
	Nominal value	Restated value	Nominal Value	Restated value
Minimum fixed capital	\$ 26	26	26	26
Variable capital	<u>974</u>	<u>974</u>	<u>974</u>	<u>974</u>
	<u>\$ 1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

12. Net revenues

For the years ended June 30, 2015 and 2014, net revenues are made up as follows:

	2015	2014
Net sales	\$ 177,438	210,172
Gain on disposal of property, machinery and equipment	4,414	217
Deferred ESPS (see note 13)	3,983	-
Other	<u>5,075</u>	<u>4,117</u>
	<u>\$ 190,910</u>	<u>214,506</u>

13. Taxes on Earnings, Tax Loss Carryforwards and Employee Statutory Profit Sharing

For the fiscal year ended December 31, 2013, companies were required to pay the greater of their Income Tax (IT) or Flat Rate Business Tax (IETU). Due to the Tax Reform 2014, beginning 2014, IETU was abrogated.

IT is calculated considering as taxable or deductible the effects of inflation over certain monetary liabilities and assets through the annual inflation adjustment. The IT rate is 30% for fiscal years ended December 31, 2013, 2014, 2015 and thereafter.

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IETU was based on cash flows and limits certain deductions; additionally, certain tax credits were granted mainly with respect to inventories, salaries taxed for IT purposes and social security contributions, tax losses arising from accelerated deductions, recoverable asset tax, and deductions related to investments in fixed assets, deferred charges and expenses. The IETU rate was 17.5% for fiscal year ended December 31, 2013.

Taxes on earnings benefit (expense) for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Deferred IT	\$ <u>-</u>	<u>15,723</u>

The main items originating a net deferred IT asset (liability) as of June 30, 2015, is as follows:

	2015
Property, machinery and equipment	\$ (566)
Liability accruals and other reserves	7,290
Employee benefits	5,228
Current ESPS	967
Deferred ESPS	(1,195)
Accumulated tax losses	<u>31,464</u>
Deferred IT asset	43,188
Valuation allowance ⁽¹⁾	<u>43,188</u>
Net deferred IT asset	\$ <u>-</u>

⁽¹⁾ In assessing the realizability of deferred assets on taxes on earnings, management considered that it was more likely than not that deferred assets will not be realized. As such, as of June 30, 2015, a valuation allowance was recognized for the total amount of the deferred IT tax asset.

Based on Company's projection, there was no certainty that as of June 30, 2014 temporary differences giving rise for deferred IT asset would be realized. As such, no deferred IT was recorded for the year ended June 30, 2014.

For the year ended June 30, 2015, the Company generated a basis of \$38,160, for the payment of ESPS of \$3,816, at an effective rate of 10%, included as part of operating expenses on the accompanying statement of comprehensive income. For the year ended June 30, 2014, the Company did not generate any basis for the payment of ESPS.

The effects of temporary differences that give rise to the net deferred ESPS asset at June 30, 2015, is presented below:

	Amount
Property, machinery and equipment	\$ (189)
Liability accruals and other reserves	2,430
Employee benefits	<u>1,742</u>
Net deferred ESPS asset	\$ <u>3,983</u>

(Continued)

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(All amounts in thousands of Mexican pesos)

Based on Company's projection, there was no certainty that as of June 30, 2014 temporary differences giving rise for deferred ESPS asset would be realized. As such, no deferred ESPS was recorded for that year.

Restated amounts as of June 30, 2015 and expiration dates of tax loss carryforwards that can be offset against IT taxable income are as follows:

Calendar year of expiration	Tax loss carryforwards
2019	\$ 99,641
2023	<u>5,240</u>
	\$ <u>104,881</u>

14. Lease Commitments

The Company has lease commitments under operating lease agreements. Minimum rentals due under the leases are payable as follows:

Calendar year	Amount
2015	\$ 1,177
2016	<u>1,869</u>
	\$ <u>3,046</u>

Rental expense amounted to \$3,158 and \$3,248 for the years ended June 30, 2015 and 2014, respectively.

15. Recently Issued Accounting Standards

a) The CINIF has issued the FRS listed below:

- **FRS D-3 "Employee benefits"**

Is effective for years beginning on or after January 1, 2016 with retrospective effects and early adoption is allowed as of January 1, 2015. FRS D-3 supersedes the provisions in FRS D-3. Main changes include the following:

- (i) Direct benefits – The classification of direct short-term benefits was modified and the recognition of deferred Employee Statutory Profit Sharing (ESPS) was ratified.
- (ii) Termination benefits – The bases were modified for identifying when payments for the termination of a work relationship actually meet post-employment benefits or when they are termination benefits.
- (iii) Post-employment benefits – Among others, the following were modified: the accounting recognition of multi-employer plans; government plans and plans of entities under common control; the recognition of the net defined benefit liability (asset); the bases for determining the actuarial hypothesis in the discount rate; the recognition of the Service Cost of Past Periods (SCPP) and of the Early Settlement of Obligations (ESO).

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- (iv) Remeasurements – In recognizing post-employment benefits, the corridor approach is eliminated in the treatment of the plan's profits and losses (PPL); therefore, they are recognized as accrued and recognized directly in Other Comprehensive Income ("ORI"), requiring their recycling to the period's net profit or loss under certain conditions.
 - (v) Plan Asset Ceiling (PA) – Identifies a plan asset ceiling and specifies which entity contributed funds do not qualify as such.
 - (vi) Recognition in profit or loss of PM, SR and gains or losses from Early Settlement of Obligations (ESO) – In post-employment benefits, the totality of the Service Cost of Past Periods (SCPP) of Plan Modifications (PM), Staff Reductions (SR) and the gains or losses from Early Settlement of Obligations (ESO) are immediately recognized in profit or loss.
 - (vii) Discount rate – Establishes that the discount rate of Defined Benefit Obligations (DBO) is based on investment grade corporate bond rates (deep market) and, in their absence, on government bond rates.
 - (viii) Termination benefits – Requires an analysis as to whether separation payments qualify as termination benefits or are actually post-employment benefits and notes that if the benefit is non-cumulative with no preexisting granting conditions, it is a termination benefit and, therefore, it should be recognized when the event occurs. However, if preexisting conditions are present, either contractually, by law or payment practices, it is deemed a cumulative benefit and should be recognized as a post-employment benefit.
- b) In December 2014, CINIF issued the document referred to as "2015 FRS Improvements", which contains precise modifications to some FRS. The modifications that bring about accounting changes are listed below:
- **FRS B-8 "Consolidated or combined financial statements"**
FRS B-8 defines investment entities and stipulates that, in view of the characteristics of such entities' primary activities, they generally do not exert control over an investee. This improvement is effective for periods beginning on or after January 1, 2015 and the accounting changes that arise should be recognized retrospectively.
 - **Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments"**
Bulletin C-9 provides that foreign currency advances should be recognized at the exchange rate prevailing on the date of the transaction; that is, at the historical exchange rate. Such amounts should not be modified by subsequent exchange fluctuations between the functional currency and the foreign currency in which the price of goods and services related to such advance payments are denominated. This improvement is effective for periods beginning on or after January 1, 2015 and the accounting changes that arise should be recognized retrospectively.

Management estimates that the new FRS and the improvements to FRS will be immaterial.

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16. Contingent Liabilities

- a) The five-year period prior to the most recent income tax return filed is open to governmental tax examination.
- b) In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, since such prices must be similar to those that would be used in arm's-length transactions.

Should the tax authorities examine the transactions and reject the related party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.