

**Alphabet de México, S. A. de C. V.**  
(Subsidiary of MSSL (GB) Limited)

**Financial Statements**

As of December 31, 2023 and 2022  
and Independent Auditor's Report

**Alphabet de México, S. A. de C. V.**  
(Subsidiary of MSSL (GB) Limited)

**Financial Statements**

As of December 31, 2023 and 2022

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## Independent Auditor's Report

**To the Stockholders' of  
Alphabet de México, S. A. de C. V.**

### **Qualified opinion**

We have audited the financial statements of Alphabet de México, S. A. de C. V. (the Company), which comprise the statement of financial position as of December 31, 2023, and the statement of comprehensive income, changes in stockholders' equity and of cash flows for the year then ended, and its notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects and possible effects of the matters described in the Basis for qualified opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company, as of December 31, 2023, and its financial performance and its cash flow for the year ended in accordance with Mexican Financial Reporting Standards (MFRS).

### **Basis for qualified opinion**

As mentioned in the Note 4.m to the financial statements as of December 31, 2023, the Company did not recognize the full provision for its obligations related to labor benefits as established in MFRS D-3 "Employee benefits", in the amount of Ps.77,170,313, which is considered important taking in account the number and seniority of the employees.

As mentioned in the Note 4.n to the financial statements, as of December 31, 2023, the Company did not recognize deferred employees' profit sharing as established in MFRS D-3 "Employee benefits", and consequently it was not possible to determine the amount, through the application of other audit procedures.

As mentioned in Note 4.p to the financial statements, as of December 31, 2023, the Company did not recognize the effects of deferred taxes on the movement of temporary items under the provisions of MFRS D-4 "Income Taxes". It was not practical to determine the effects resulting from the non-adoption of such Standard; however, the effects are considered significant.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in México in accordance with the Mexican Institute of Public Accountants' Code of Professional Ethics (MIPA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA and MIPA Codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Other issues**

The figures of the financial statements as of December 31, 2022, are presented for comparative purposes, since they were audited by other independent accountants, who issued on May 15, 2023 a qualified opinion due to deviations from MFRS B-10 "Effects of inflation", MFRS D-4 "Income tax" and MFRS D-3 "Employee benefits".

### **Responsibilities of the management for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with MFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as appropriate, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exercise our professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may significantly doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management, regarding among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly México  
Independent member firm of  
Baker Tilly International



CPA Raymundo Guerrero Mendoza  
Audit Partner

Aguascalientes, Ags. México  
June 13, 2024

**Alphabet de México, S. A. de C. V.**  
(Subsidiary of MSSL (GB) Limited)  
Statements of financial position  
As of December 31, 2023 and 2022  
(Stated in Mexican pesos)

	Notes	2023	2022
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	Note 5	Ps. 4,825,258	Ps. 2,014,249
MSSL Wiring System, Inc.	Note 7	87,648,097	52,566,202
Prepaid expenses		5,248,315	5,649,192
Value added tax recoverable		14,910,753	19,010,027
<b>Total current assets</b>		<u>112,632,423</u>	<u>79,239,670</u>
<b>Non-current assets:</b>			
Property, plant and equipment - Net	Note 8	69,147,999	55,838,314
Right of use assets - Net	Note 9	20,085,120	30,358,601
Other assets		2,691,754	2,255,350
<b>Total assets</b>		<u>Ps. 204,557,296</u>	<u>Ps. 167,691,935</u>
<b>Liabilities and stockholders' equity</b>			
<b>Short term liabilities:</b>			
Accounts payable		Ps. 7,001,890	Ps. 6,957,233
Direct benefits to employees		51,435,774	44,727,551
Short-term lease obligations	Note 9	5,231,437	8,560,759
Income tax payable		2,254,863	2,503,015
Accrued expenses and other payables		37,601,223	32,589,695
<b>Total current liabilities</b>		<u>98,681,974</u>	<u>95,338,253</u>
<b>Long-term liabilities:</b>			
Long-term lease obligations	Note 9	21,122,609	26,383,425
Employees' benefits	Note 10	20,405,777	18,701,817
<b>Total liabilities</b>		<u>140,210,360</u>	<u>140,423,495</u>
<b>Stockholders' equity:</b>			
Capital	Note 13	1,810,328	1,810,328
Retained earnings		62,536,608	25,458,112
<b>Total stockholders' equity</b>		<u>64,346,936</u>	<u>27,268,440</u>
Commitments and contingencies	Note 15		
<b>Total liabilities and equity</b>		<u>Ps. 204,557,296</u>	<u>Ps. 167,691,935</u>

The accompanying notes are an integral part of these financial statements which were authorized for their issuance on April 30, 2024 by the officers that sign these financial statements and their notes.

  
Martha Elena Montoya  
Controller

**Alphabet de México, S. A. de C. V.**  
 (Subsidiary of MSSL (GB) Limited)  
 Statements of comprehensive income  
 For the years ended December 31, 2023, and 2022  
 (Stated in Mexican pesos)

	Notes	2023	2022
Maquila revenues	Note 7	Ps. 980,940,769	Ps. 767,528,772
Other income		4,622,427	1,167,404
		<u>985,563,196</u>	<u>768,696,176</u>
Maquila expenses	Note 14	<u>924,428,928</u>	<u>722,231,625</u>
Operating profit		<u>61,134,268</u>	<u>46,464,551</u>
Comprehensive financial result:			
Interest in charge - Net		1,543,576	2,281,337
Exchange gain - Net		<u>(893,387)</u>	<u>(652,728)</u>
		<u>650,189</u>	<u>1,628,609</u>
Profit before income taxes		60,484,079	44,835,942
Income tax	Note 12	<u>23,405,583</u>	<u>19,377,830</u>
Net profit of the year		<u>Ps. 37,078,496</u>	<u>Ps. 25,458,112</u>

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 Martha Elena Montoya  
 Controller

**Alphabet de México, S. A. de C. V.**  
 (Subsidiary of MSSL (GB) Limited)  
**Statement of changes in stockholders' equity**  
 For the years ended December 31, 2023 and 2022  
 (Stated in Mexican pesos)

	Capital stock	Retained earnings	Total stockholders' equity
Balance as of January 1, 2022	Ps. 1,810,328	Ps. 31,255,274	Ps. 33,065,602
Dividends decreed (Note 13)	-	(31,255,274)	(31,255,274)
Net profit of the year	-	25,458,112	25,458,112
Balance as of December 31, 2022	1,810,328	25,458,112	27,268,440
Net profit of the year	-	37,078,496	37,078,496
Balance as of December 31, 2023	Ps. 1,810,328	Ps. 62,536,608	Ps. 64,346,936

The accompanying notes are an integral part of these financial statements which were authorized for their issuance on April 30, 2024 by the officers that sign these financial statements and their note.

  
 Martha Elena Montoya  
 Controller



**Alphabet de México, S. A. de C. V.**  
(Subsidiary of MSSL (GB) Limited)  
**Statements of cash flows**  
For the years ended December 31, 2023 and 2022  
(Stated in Mexican pesos)

	2023	2022
<b>Operating activities:</b>		
Profit before provision for income tax	Ps. 60,484,079	Ps. 44,835,942
Item related to investing activities:		
Depreciation and amortization	17,175,591	2,950,999
Labor obligation	1,703,960	591,271
Items related to financing activities:		
Interest gain	-	2,281,337
Leasing interest	1,543,576	-
Unrealized exchange rate fluctuation	390,462	-
	<u>81,297,668</u>	<u>50,659,549</u>
Changes in operating assets and liabilities:		
Accounts receivables and others	-	(9,731,659)
Prepaid expenses	387,017	(1,192,588)
Other assets - Net	(436,404)	(141,414)
Accountant payables	44,657	1,928,139
Related parties	(35,081,895)	18,685,705
Employees' benefits	11,762,734	10,787,013
Accrued expenses and other payables	(1,243,573)	10,654,128
Income tax payment	(23,653,735)	(25,788,411)
Net cash flow from operating activities	<u>33,076,469</u>	<u>55,860,462</u>
<b>Investment activities:</b>		
Acquisition of machinery equipment and leasehold Improvements		
Equal to net cash flows from investment activities	<u>(19,741,284)</u>	<u>(27,011,573)</u>
<b>Financing activities:</b>		
Interest paid	-	(2,281,337)
Lease payments	(10,524,176)	(31,255,274)
Net cash flow from financing activities	<u>(10,524,176)</u>	<u>(33,536,611)</u>
Increase (decrease) in cash and cash equivalents	2,811,009	(4,687,722)
Cash and cash equivalents at beginning of year	2,014,249	6,701,971
Cash and cash equivalents at end of year	<u>Ps. 4,825,258</u>	<u>Ps. 2,014,249</u>

The accompanying notes are an integral part of these financial statements which were authorized for their issuance on April 30, 2024 by the officers that sign these financial statements and their note.

Martha Elena Montoya  
Controller

**Alphabet de México, S. A. de C. V.**  
(Subsidiary of MSSL (GB) Limited)  
Notes to the financial statement  
For the years ended December 31, 2023 and 2022  
(Stated in Mexican pesos)

**1. Information of the Company and nature of its operations**

Alphabet de México, S. A. de C. V. (The "Company") started July 1, 2014 a subsidiary of MSSL (GB) Limited, (MSSL) it was founded in 1981, in accordance with Mexican law under the protection of the maquila program established by the Mexican Government.

The main activity is to assemble harnesses for the automotive industry under a maquila agreement with MSSL Wiring System, Inc. (a related party).

On October 27, 2015 the Ministry of Economy authorized PKC Group de Piedras Negras, S. de R. L. de C. V. to change the modality of its IMMEX Program from Industrial to a Holding Maquiladora Program, this program includes the companies which provide personal services to AEES. With this authorization, PKC Group de Piedras Negras, S. de R. L. de C. V. acquired the quality of a controlling company with a single IMMEX program in accordance with the Decree of the promotion of the manufacturing industry. Each of the personnel services companies entered into an individual manufacturing contract with its related party to carry out the maquila services.

For practical purposes, the Company has defined that its normal operating period covers from January 1<sup>st</sup> to December 31 of each year.

The Company operates under a temporary importation permit issued by the Ministry of the Economy known as Maquiladora Manufacturing and Export Services Industry (IMMEX by its acronym in Spanish), in accordance with the rules issued by that agency. That permit establishes certain obligations for maquiladoras (contract manufacturers), and initially allows for tax-free importation of materials and other items used in the manufacturing and assembly process in Mexico. Once that process has been concluded, those goods are exported as finished products within the deadlines established for the permit. Furthermore, this program allows for temporary importation, free of value added tax, of the machinery and equipment used in the maquila operation, which must also be returned to the country of origin upon conclusion of the maquila operation, or when it ceases to be used.

As mentioned, the Company belongs to its related party engaged in the manufacture of items used in the automobile industry. The company operates in Mexico in order to take advantage of the possibility of carrying out a certain production process under the aforementioned IMMEX permit. In the case of a maquila service provider rendering services to unrelated parties, Mexican tax provisions require maquila companies to comply with transfer pricing rules applicable to income from maquila services.

Due to the fact that these maquila services are invoiced to its related party MSSL Wiring System, Inc. the Company is economically dependent on this entity.

Under the maquila agreement, MSSL Wiring System, Inc. retains ownership of inventory and the Company merely processes that inventory as per the specifications and supervision of the MSSL Wiring System, Inc. The related party assumes the risk and responsibility of the physical integrity of that inventory and of the quality of the production processes.

## **Labor reforms**

On December 27, 2022, a Decree was released in which articles 76 and 78 of the Federal Labor Law (FLL) are amended in reference to vacation benefits. The main purpose of these amendments is to increase the minimum annual vacation period for employees upon their first year of service and subsequent years. This reform is effective on January 1, 2023; however, as of December 31, 2022, the Company accrued those labor costs and expenses on possible vacation leave compensation and the related premium employees might be entitled to for the following 12 months.

## **2. Basis of preparation of the financial statements**

The accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (MFRS) as issued by the Mexican Financial Reporting Standards Board (MFRSB) except for what is described in Notes 4.m, 4.n and 4.p to the financial statements, they have been prepared under the assumption that the Company operates on a going concern basis.

### **Use of estimates**

In preparing the financial statements, MFRS require the use of estimates and assumptions that are critical to measure some of their line items as well as disclosing some contingent assets and liabilities, if any. Actual amounts sometimes can differ from when such estimates and assumptions were originally determined.

MFRS also require Management to exercise judgement in applying the Company's accounting policies. There are not areas that imply major judgements and uncertainty or, where assumptions and estimates are significant to the financial statements.

### **Reporting currency**

The accompanying financial statements have been prepared in Mexican pesos, which is the Company's functional currency.

For purposes of disclosure, "pesos" or "Ps." means Mexican pesos and "dollars" or "USD" means U.S. dollars.

### **Reclassifications**

Some amounts and financial statement line items for the year ended 2022 have been reclassified to make them comparable with those presented at year end 2023. Such reclassifications do not have any effect in the financial position and operating results presented in the financial statements in 2022.

### **Authorization of the issued financial statements**

The financial statements for the year ended December 31, 2023 were authorized for the Shared Service Manager, Martha Elena Montoya April 30, 2024. These financial statements must be further approved by the Company's Board of Directors and the Stockholders. In accordance with the General Corporate Law, this body is entitled to amend the financial statements after issuance.

### 3. New accounting pronouncements

#### a) New standards and improvements adopted, beginning January 1, 2023

Derived from the issuance of new standards and improvements to some MFRS that become effective January 1, 2023, the company made the adoptions shown as following:

##### **MFRS A-1 Conceptual Framework of the Financial Reporting Standards**

The Conceptual Framework will change its codification to include in MFRS A-1 what formerly was Series A of the extant Conceptual framework (MFRSA-1 to MFRSA-8). Other important changes are the fundamental and enhancing qualitative characteristics of the financial statements, some definitions of asset and liability, the new valuation of amortized cost and elimination of the replacement cost valuation. All the foregoing, given the issuance of particular new standards and to narrow down differences with International Financial Reporting Standards (IFRS).

The new Conceptual Framework will be effective for fiscal years beginning on January 1, 2023.

##### **Improvements to NIF 2023**

**MFRS B-10 Effects of inflation - Inflation levels in an inflationary environment.** The wording is amended in some paragraphs to eliminate references to annual inflation average of 8% as a measure of an inflationary environment. Accordingly, accumulated inflation for the immediate three years of 26% or higher will be the only threshold to consider an inflationary economic environment.

**MFRS C-3 Accounts receivable. Reference to other accounts receivable and elimination of references to accounts receivable.**

The scope of the standard is specified, which is also applicable to other accounts receivable, and references to the concept of commercial accounts receivable have eliminated a term that is no longer used in this MFRS.

##### **MFRS C-4 Inventories- details in writing**

The MFRSB considers it convenient to include some improvements, which clarify and clarify certain regulatory concepts. Additionally, an introductory paragraph of convergence section with international financial reporting standard IFRS was modified, clarifying the difference that arises with the International Accounting Standard IAS 2 Inventories.

#### b) Revised and improvements to MFRS issued, that are not yet effective

In December 2023, the MFRSB issued the improvement MFRS to 2024, which contains specific modifications to some existing MFRS the mainly improvements that generated accounting changes are the following:

##### **MFRS C-6 Property, Plant and Equipment/MFRS D-6 Capitalization of comprehensive financing results/MFRS E-1 Agricultura activities**

It comes into force for years beginning on or after January 1, 2024, allowing its early application in 2023. Any change it generates must be recognized in accordance with MFRS B-1 Accounting changes and error corrections. This improvement specifies that a producing biological asset could be a qualifying file if it is not ready to start producing (intentional use) and the CFR could be capitalized as part of its acquisition cost.

Additionally, producing plants and animals are included within the scope of MFRS. C-6.

**MFRS B-2 Statement of cash flows/MFRS B-6 Statement of financial position/ MFRS B-17 Determination of fair value/ MFRS C-2 Investment in financial instrument, / MFRS C-6 Impairment of financial instrument receivable/MFRS C-20 Financial instruments receivable principal and interest/ IMFRS 24 Recognitions of the effects of the applicable of the new reference interest rates.**

It comes into force for years beginning on or after January 1, 2024, allowing its early application in 2023. The term financial instruments to collect or sell changes to financial instruments to collect and sell. Any accounting change it generates must be recognized in accordance with MFRS B-1 Accounting and error corrections.

#### **MFRS D-4 Income taxes**

Comes into force for years beginning on January 1, 2024, allowing its early application in 2023. This improvement clarifies the application rate that must be used to recognize assets and liabilities for income taxes incurred and deferred when there were benefits in tax rates or the period to encourage the capitalization profits (undistributed profits). In these circumstances, the assets and liabilities for caused and deferred taxes must be determined at the rate that will be applicable to the profits non distributed in the period. Any accounting changes it generates must be recognized in accordance with MFRS B-1 accounting changes and error corrections.

The company's management estimates that the adoption of these improvements to the MFRS does not generate significant effects.

#### **4. Significant accounting policies**

##### **a) Foreign currency transactions**

Foreign currency transactions are recorded using the exchange rate at the transaction date. Exchange differences resulting from the settlement of such transactions and/or from remeasurement of foreign currency denominated balances using the exchange rate at the reporting date, are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies are measured at the exchange rate of the transaction date (historical cost).

##### **b) Recognition of inflation in the financial information**

In accordance with MFRS B-10, effective January 1, 2008, the effects of inflation in the financial information ceased to be recognized.

Inflation for the years 2023 and 2022, determined through the National Consumer Price Index (INPC, *for its Spanish acronym*) was 4.66% and 7.82%, respectively. Accumulated inflation for the immediate three years before 2023 and 2022 was 19.39% and 13.87%, respectively. Accumulated inflation for the last three years to year end 2023 and 2022 is 21.14% and 19.39%; respectively; levels which, pursuant to MFRS, correspond to a non-inflationary environment for the reporting years and the next one.

The financial statements as of December 31, 2023 and 2022 are prepared under historical cost basis. Pursuant to MFRS B-10, the Company does not recognize the effects of inflation in the financial information as it operates in a non-inflationary economic environment since its incorporation and commencement of its operations.

##### **c) Presentation of the statement of comprehensive income**

Costs and expenses, shown in the accompanying statements of profit or loss, are presented based on their function as such classification allows for appropriately assessing gross profit and operating margins.

#### **d) Statements of cash flows**

Statements of cash flows have been prepared under the indirect method, presenting cash flows from operating activities beginning by pre-tax net income, and reconciled with non-cash flows items arising from investing and financing activities; then followed by working capital changes, cash flows from investing activities and those from financing activities.

#### **e) Revenue from contracts with customers**

The Company's income is comprised by the income of services provided in the manufacturing and assembling of wire harnesses for the automotive industry under the "maquila" treatment to MSSL Wiring System, Inc., a related party based in the United States of America.

To recognize revenue, the Company follows the five-step model:

- Identifying the contract with the customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to each performance obligation, and
- Recognizing revenue when each performance obligation is satisfied.

Revenue is recognized at the transaction price, being the expected right of consideration in exchange to transfer the promised good to the customer adjusted by any variable payment or any rebate promised to the customer.

#### **Service income**

Maquila services are generally contracted for a profit margin over the general expenses consideration and revenue is recognized based on the portion of the service already provided as the customer takes control of the service as it is being provided. Billings for the services are based on a payment schedule; and accordingly, any excess of billed amounts over the effective service provided is adjusted to revenue and a contract liability is recognized. Likewise, any effective portion of the service rendered not yet billed accounts for a revenue and a contract asset recognition (unbilled revenue).

#### **f) Cash and cash equivalents**

Cash and cash equivalents are primarily represented by petty cash, bank and time deposits, and highly liquid short-term investments with maturities of 90 days or less, with slight risk of changes in value. Cash is presented at nominal value and investments at fair value; changes in value of this caption are recognized in the comprehensive financial result. (See Note 5).

#### **g) Trade accounts receivables with related party**

Trade receivables are initially recognized at the transaction price and subsequently measured at the unconditional consideration amounts, less any expected loss.

To recognize any impairment, the Company uses a simplified matrix approach to determine expected credit losses (ECL) for the lifetime of the receivable. To measure ECL, accounts receivable is grouped based on common credit risk characteristics and/or different patterns of non-performance losses. Estimated rates (percentages) are applied based on default periods and are increased as default periods become longer. (See Note 7).

As of December 31, 2023, and 2022, there are no accounts receivable that have a probability of default.

#### **h) Prepayments**

Prepaid expenses mainly comprise insurance and other upfront payments to service suppliers) for which the benefit or inherent risk for the goods or services acquired are not yet transferred to the Company. They are recognized at the amounts paid; when receiving the good or service they are transferred to an asset or expense based on which the payment was intended. Prepayments in foreign currency are recognized at the exchange rate of the transaction date and are not subject to remeasurement due to foreign exchange fluctuation.

#### **i) Property, plant and equipment**

Property, plant and equipment are initially recognized at their acquisition cost.

Depreciation of machinery, equipment and leasehold improvements is calculated upon the value of the assets, using the straight-line method and based on their estimated useful lives. (See Note 8), which are annually reviewed considering their residual value.

Where these assets are comprised in various components with different estimated useful lives, material individual components are depreciated during their individual useful lives. Maintenance costs and repair costs are charged to profit or loss as incurred.

When there is a substantial period of construction or installation of property, plant and equipment, the accrued comprehensive financial result is capitalized to the qualifying assets.

Improvements to leased facilities are accounted for at their acquisition cost and amortized during the lease term.

The value of machinery, equipment and leasehold improvements is reviewed when there is an indication of impairment in the value of such assets. When the recovery value, which is the greater of the sales price and value in use (which is the present value of future cash flows), is lower than the net book value, the difference is recognized as an impairment loss. In the years ended December 31, 2023 and 2022, no indications of impairment were identified. (See Note 8)

#### **j) Leases**

The Company accounts for a right-to-use asset arising from lease agreements entered into as a lessee. Its cost comprises the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any cost of dismantling the asset at the end of the lease contract, and any lease payments made prior to the lease official commencement date (net of any incentives received).

Right-of-use assets are depreciated using the straight-line method from the lease initial date to the earlier of the asset's end of its useful life or to the end of the lease term.

The liability is measured at the present value of the future payments at the beginning of the lease, discounted at an interest rate implied in the lease, if that rate is easily determinable, the Company's incremental financing rate or a free risk rate. After the initial measurement, the liability will be reduced by the payments made and increased by the interest. The liability is re-measured to reflect any re-evaluation or modification, or if there is a change in payments that are essentially fixed. The measurement adjustment affects the right-of-use asset or affects income if the asset has already been reduced to zero. (See Note 9).

#### **k) Financial liabilities**

The Company's financial liabilities include lease obligations, suppliers, and other accounts payable.

Financial liabilities are initially measured at fair value and, when applicable, adjusted for transaction costs, unless the Company has designated the financial liability in its initial recognition at fair value through profit or loss (FVTPL).

#### **l) Provisions and contingent liabilities**

Provisions are recognized when (i) there is a present obligation (legal or assumed) because of a past event, (ii) there is a likely need of outflow of economic resources, and (iii) amounts can be estimated reliably.

Contingent liabilities are only recognized when the outflow of economic resources for their settlement is probable and there are reasonable bases for its quantification. Likewise, commitments are recognized only when a loss is known.

#### **m) Employees' benefits**

##### Direct benefits

Obligations for short-term employee direct benefits such as salaries, profit sharing, year-end bonus, paid vacation, illness leave are recognized as expenses in the year the employees are entitled for the benefits.

##### Seniority premium and indemnifications

The Federal Labor Law in México sets forth payment of seniority premium to personnel being employed for 15 or more years, as well as indemnifications for voluntary or involuntary termination, which are mandatory at the time the labor relationship ceases for termination or retirement. These benefits are determined based on actuarial appraisals considering personnel years of service to cover defined benefit obligations (DBO) in a long-term liability. (See Note 10).

Adjustments to DBO arising from actuarial gains or losses are recognized in Other Comprehensive Income (OCI) and then reclassified to profit or loss based on the remaining average labor life. Costs of unaccrued past services, less fair value of plan assets (if any) are recognized in profit or loss.

As of December 31, 2023 and 2022, the Company did not recognize the full provision for its obligations related to labor benefits as established in MFRS D-3 "Employee benefits", in the amount of Ps.77,170,313 and Ps.74,838,604; respectively, which is considered important taking in account the number and seniority of the employees.

#### **n) Statutory employees' profit sharing (SEPS)**

Current SEPS is recognized in profit or loss for the year in which is deemed payable and is allocated in its belonging expense item within the statement of comprehensive income. Deferred SEPS is determined from temporary differences arising from comparing books against tax values of assets and liabilities using the enacted rate at year end. Deferred SEPS asset is recognized only if it is probable that will be recoverable in the future.

Current SEPS is determined based on taxable income as provided in Section II of Article 10 of the Income Tax Law. (See Note 11).

As of December 31, 2023 and 2022, the Company did not recognize deferred employees' profit sharing as established in MFRS D-3 "Employee benefits", and consequently it was not possible to determine the amount, through the application of other procedures.



## **o) Comprehensive income**

Total comprehensive income represents the equity gained during the year, comprised by the net income and other comprehensive items. The Company's other comprehensive items are the result of accumulated translation effects, defined benefit plan adjustments, fair value reassessments, and the effect of deferred taxes being applied directly to equity.

## **p) Income taxes**

Income tax expense is comprised by the current and deferred income tax of the year. Current income tax of the year is presented as a short-term liability, net of any prepayment made during the same year.

Deferred income tax is determined based on temporary differences arising from comparing book against tax values of assets and liabilities using the expected tax rate will be in force in the year the asset would be realized, or the liability would be settled.

A deferred tax asset is recognized for temporary deductible differences, including the benefit of tax loss carryforwards and other tax credits, only if it is probable that future taxable income will be available to utilize those temporary differences or losses. The carrying amount of the asset is reviewed at the reporting date and is reduced to the extent it is unlikely to have sufficient tax benefits available to which the asset can be realized. Accordingly, any deferred tax asset allowance previously created is reversed otherwise.

Deferred income tax of applicable items recognized aside of profit or loss are associated to the underlying transaction, and therefore, recognized in OCI. (See Note 12).

As of December 31, 2023 and 2022, the Company did not recognize the effects of deferred taxes on the movement of temporary items under the provisions of MFRS D-4 "Income Taxes". It was not practical to determine the effects resulting from the non-adoption of such Standard; however, the effects are considered significant.

## **Uncertain tax treatments**

The Company assesses every year the uncertainty over tax treatments in connection with income tax, considering any new positions taken by the tax authority and/or tax amendments during the year that can affect those tax treatments adopted by the Company in prior years.

For those uncertain treatments where Management may conclude are not probable that the tax authority will accept them, Management uses the "most likely amount" method to estimate income tax determinations.

## **5. Cash and cash equivalents**

As of December 31, 2023 and 2022, cash and cash equivalents are comprised as follows:

	December 31,	
	2023	2022
Petty cash	Ps. 15,000	Ps. 11,703
Bank deposits	4,810,258	2,002,546
	<u>Ps. 4,825,258</u>	<u>Ps. 2,014,249</u>

## 6. Inventory for maquila process

As of December 31, 2023 and 2022, the Company has the following inventories of raw materials temporarily imported for maquila process, which must be returned or exported to another country once the inventory has been transformed, in accordance with the "IMMEX" program.

	December 31,	
	2023	2022
Raw material	Ps. 232,744,912	Ps. 184,366,833

## 7. Related parties

a. Balances receivable with related parties As of December 31, 2023 and 2022 are as follows:

	December 31,	
	2023	2022
MSSL Wiring System, Inc.	Ps. 87,648,097	Ps. 52,566,202

The company conducts its operations through a maquila's contract, which states that income will be calculated based on the costs and expenses incurred in the conduct of its operations plus a percentage of profit.

b. Transactions with related parties, carried out in the ordinary course of business were as follows:

	Years ended December 31,	
	2023	2022
Revenue for maquila service	Ps. 980,940,769	Ps. 767,528,772

## 8. Property, plant and equipment

a) Property, plant and equipment are comprised as follows:

	December 31,		Depreciation
	2023	2022	rate
Building	Ps. 94,346,793	Ps. 70,583,524	5%
Machinery and equipment	31,157,087	30,216,934	10%
Furniture and fixtures	4,357,024	4,357,024	10%
Computer equipment	4,392,758	3,249,511	25%
	134,253,662	108,406,993	
Accumulated depreciation	(66,666,640)	(60,235,041)	
	67,587,022	48,171,951	
Land	1,560,977	1,560,977	
Construction in process	-	6,105,385	
	Ps. 69,147,999	Ps. 55,838,314	

b) Depreciation expense for the years ended December 31, 2023, and 2022 amounted to Ps.6,431,599 and Ps.2,950,999; respectively.

## 9. Leases

The Company has lease contracts for various items of machinery, vehicles and other equipment used in its operations. Leases of property and plant generally have lease terms between 3 and 5 years, while equipment generally have lease terms between 1 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the lease's assets. Some lease contracts include extension and termination options and variable lease payments, which are further discussed below.

Information related to right of use assets, is shown below:

	Years ended December 31,	
	2023	2022
Right-of-use asset (industrial facility and machinery)	Ps. 57,337,098	Ps. 56,866,587
Amortization	(37,251,978)	(26,507,986)
	<u>Ps. 20,085,120</u>	<u>Ps. 30,358,601</u>

	Years ended December 31,	
	2023	2022
Lease obligations	Ps. 34,944,184	Ps. 42,880,766
Other leasing concepts	470,512	-
Rents paid	(10,524,176)	(10,867,168)
Exchange fluctuation	(80,050)	649,249
Interest expense generated	1,543,576	2,281,337
Rents pending payment	26,354,046	34,944,184
Short-term lease obligations	5,231,437	8,560,759
Long-term lease obligations	<u>Ps. 21,122,609</u>	<u>Ps. 26,383,425</u>

Amortization and interest amount into the comprehensive income statement as of December 31, 2023 y 2022 were as follows:

	Years ended December 31,	
	2023	2022
Lease amortization	Ps. 10,743,992	Ps. 10,867,168
Interest expense generated	<u>1,543,576</u>	<u>2,281,337</u>

## 10. Employees' benefits

As of December 31, 2023 and 2022, no contributions were made to a bank fund for the payment of benefits.

As of December 31, 2023 and 2022 the Company recognized an amount of obligations of benefits to the Employees' as follows:

a. Reconciliation between the initial and final balances of the present value of Obligations for Defined Benefit (OBD), Plan Assets (PA) and the Net Projected Assets / Liabilities (A / PNP by its Spanish Acronym) for the 2023 and 2022 fiscal year is shown as follow:

	Seniority premium December 31,	
	2023	2022
Net liabilities for defined benefits:		
OBD at Acquired	Ps. 5,570,611	Ps. 5,447,061
OBD not acquired	14,835,166	13,254,756
PNP	<u>Ps. 20,405,777</u>	<u>Ps. 18,701,817</u>

b. Period Net Cost (CNP by its Spanish acronym)

An analysis of the CNP by plan type is presented as follows:

	Seniority premium December 31,	
	2023	2022
PNP at the beginning of the year	Ps. 18,701,817	Ps. 18,110,546
CNP:		
Past services labor cost	2,357,309	2,188,005
Cost of period	1,672,931	1,412,257
Net actuarial (gain) loss of period	(2,326,280)	(1,384,581)
Plan paid cost	-	(1,624,410)
PNP at the end of the year	<u>Ps. 20,405,777</u>	<u>Ps. 18,701,817</u>

c. Main actuarial assumptions

The main actuarial assumptions used, expressed in absolute terms, as well as the discount rates, return on plan assets, salary increase and changes in the indices or other variables, referred to December 31, 2023 and 2022, are shown below:

Demographic:

Mortality

Disability

Discount benefit obligations  
Projected present value  
Legal minimum salary increases  
Expected rate of salary increase

	EMSSA 2009 EISS 97 table	
	2023	2022
	%	%
	9.40	9.40
	5.00	5.00
	<u>4.00</u>	<u>4.00</u>

## 11. Statutory employees' profit sharing (SEPS)

The Company is subject to the payment of the SEPS, which is calculated using the procedures established by the Law of income tax (LIT). On January 1, 2014, the new LIT entered into force, which modifies the procedure to determine the taxable base for the calculation of the SEPS, which must be determined based on the provisions of Article 9 of the LIT, where the taxable base for SEPS is the reported taxable income for income tax purposes, without reducing the SEPS paid or deferred tax losses and decreasing the amount of non-deductible exempt wages, as well as historical tax depreciation that would have been determined if there had not been applied immediate deductions to property, plant and equipment in prior years to 2014.

In 2023 the Company determined an SEPS payable of Ps.8,487,558 (In 2022 SEPS payable was Ps.7,019,224). The taxable base of SEPS differs from the accounting result mainly due to the fact that historical depreciation is recognized for accounting purposes, while for the purposes of SEPS caused, the same taxable base is recognized as for income tax, as mentioned in the previous paragraph, which generates differences in the time in which some items are accrued or deducted from accounting and for effects of SEPS caused, as well as those items that only affect the accounting result or SEPS caused by the year.

As of December 31, 2023 and 2022, the Company did not recognize deferred employees' profit sharing as established in MFRS D-3 "Employee benefits", and consequently it was not possible to determine the amount, through the application of other audit procedures.

At December 31, 2023 and 2022, the employees' profit sharing provision recognized in the statements of comprehensive income as follows:

	Year ended December 31	
	2023	2022
Employees' statutory profit sharing	Ps. 8,487,558	Ps. 7,019,224

## 12. Income tax

- i. The tax income law establishes that the applicable income tax rate for 2023, and 2022 years is 30% of tax income.

Likewise, on December 26, 2013, a presidential decree was published in the Official Gazette of the Federation (DOF by its Spanish acronym), which grants the following benefits to the maquiladora industry:

- An additional deduction of 47% or 53%, as the case may be, on the benefits exempted from taxes paid to employees in the relevant activity of the maquila operation (since 2014, the Law limits the deduction of these payments up to 47% of them, under certain conditions the deduction can amount to 53%). The maquiladoras that apply this benefit must inform the Mexican authorities of the amount and determination thereof, for which they will have until the month of March of the corresponding year (for 2023 the due date is March 2024).
- For product sales made in Mexico between a resident abroad and the maquiladora, valued at 16% VAT, if certain requirements are met, the acquirer will be able to credit and receive VAT from the operation in the same month as the sale.

Additionally, according to the miscellaneous fiscal resolution in force, among other rules, the following are applicable to the maquiladora industry:

The Income tax law establishes that income associated with productive activities must originate only from maquila activities. In this sense, said rule establishes that such income may also include those obtained by other maquila services provided to related parties residing abroad and other miscellaneous income, indicating that this type of income must be clearly identified in the records of the maquila their relative expenses and as long as they do not exceed 10% of the maquila income. As of December 31, 2023, and 2022, revenues other than maquila correspond to less than 1% in both years, in relation to the total income of the Company. The Income tax law modified the definition of "Maquila Operation". Income related to productive activities should now come only from maquila activities, as indicated in the IMMEX Decree. Additionally, the law provides rules on the machinery and equipment used for the maquila activity, which are consistent with the current definition of the IMMEX Decree.

Until December 31, 2021, there was currently two transfer pricing methods: Safe Harbor (tax basis considering the average of assets or costs and expenses, whichever is greater) and Advance Price Agreement with the fiscal authority (APA for its acronym in English).

The APA study is prepared by specialists in the field and is intended to determine the normal ranges of prices between parties not related to similar transactions and is applied in the maquiladora as a percentage of operating profit.

The "Safe Harbor" option establishes a mechanism in which the maquila companies are obliged to determine a fiscal profit, equivalent to the amount that is greater between applying 6.9% on the value of the assets destined to the maquila operation (on certain basis) and 6.5% on the amount of costs and expenses of the operation.

The Mexican Congress on October 26, 2021, approved several changes to different tax laws as part of the proposed 2023 budget. These changes include amendments to the Mexican Income Tax Law (MITL), the Value-Added Tax Law (VATL), and the Mexican Federal Tax Code (MFTC), most of which into force on January 1, 2022. Key changes include that Maquiladoras will not be permitted to comply with transfer pricing obligations through Advance Pricing Agreements (APAs), and the only applicable mechanism to determine the profit margin will be the safe-harbor rules.

- ii. During 2023 and 2022, the Company adhered to the option called APA through the "Fast Track" method. On December 10, 2021, the Company asked the Tax Authorities for its authorization to apply in the fiscal years ending on December 31, 2020, 2022, 2023, 2023 and 2024, the provisions of the penultimate paragraph of Article 182 (Income tax law).
- iii. In accordance with the current Income tax law and the rules, in 2023 the Company determined an income tax profit of Ps.78,018,610 (Ps.64,592,767 in 2022). The fiscal result differs from the accounting result, mainly for those items that accumulate over time and are deducted differently for accounting and tax purposes, due to the recognition of the effects of inflation for fiscal purposes, as well as those items that only affect the accounting result or the fiscal. As of December 31, 2023 and 2022, the Company did not recognize the effects of deferred taxes on the movement of temporary items under the provisions of MFRS D-4 "Income Taxes". It was not practical to determine the effects resulting from the non-adoption of such Standard; however, the effects are considered significant.

iv. The income tax provision is analyzed as follows:

	Years ended December 31	
	2023	2022
Current income tax	Ps. 23,405,583	Ps. 19,377,830

v. The effective rate and statutory rate reconciliation at December 31, 2023 and 2022 is as follows:

	Year ended December 31,	
	2023	2022
Profit for income tax	Ps. 60,484,079	Ps. 44,835,942
Tax rate	30%	30%
Income tax at legal rate	18,145,224	13,450,783
Plus (less) the following items		
Annual inflation adjustment	958,343	1,309,880
Non-deductible	1,363,848	1,064,284
Accruals	2,960,387	4,701,552
Other permanent items	(22,219)	(1,148,668)
Income tax	Ps. 23,405,583	Ps. 19,377,830
Effective tax rate	39%	43%

### 13. Stockholders' equity

a) As of December 31, 2023 and 2022, the share capital is variable, with an authorized fixed minimum of \$1,810,328 fully subscribed and paid in cash, the maximum share capital of the company will be unlimited. The minimum fixed share capital is represented by nominative, common and released representative of the fixed portion of the capital without the right to withdrawal. Both the fixed and the variable portion of the share capital are represented by shares of the series "B", with a nominal value of one peso each and are subscribed in their entirety by foreign investors, these shares will be freely subscribed.

	Number of shares	Amount
Fixed capital, series B	25	Ps. 25
Variable capital, series B	1,810,303	1,810,303
	1,810,328	Ps. 1,810,328

b) According to the general law of commercial companies, the Company must separate from the net income of each year by at least 5% to increase the legal reserve until it reaches 20% of the share capital. At December 31, 2023 and 2022 the company has not created the legal reserve.

c) Fiscal values

Stock reimbursements and dividends, except for those restated tax balances of paid in common stock (CUCA, for its Spanish acronym) and retained earnings (CUFIN, for its Spanish acronym) will be subject to income tax to the Company at the rate in effect at distribution date. The tax paid may be credited against the annual income tax for the year in which the tax on dividend is paid and the two immediately following years.

As of December 31, 2023 and 2022, the CUFIN and CUCA accounts have the following values:

	December 31,	
	2023	2022
CUCA account balance	Ps. 3,953,533	Ps. 3,777,502
CUFIN account balance	129,323,318	75,783,863

d) Dividends

In an ordinary shareholders' meeting held on June 13, 2022, the shareholders approved dividends of \$31,255,274 which comes from CUFIN. Such dividends were cash-paid in full on July 18, 2022.

**14. Maquila cost and expenses**

At December 31, 2023 and 2022, the maquila cost and expenses are as follows:

	December 31,	
	2023	2022
Wages and salaries	Ps. 561,444,525	Ps. 442,357,637
Social security and payroll tax	114,496,417	89,053,743
Professional fees and services	109,925,216	83,831,957
Transportation expenses	55,454,192	38,024,882
Travel expenses	1,862,375	1,180,520
Other expenses	81,246,203	67,782,886
	Ps. 924,428,928	Ps. 722,231,625

**15. Commitments and contingencies**

Commitments

As of December 31, 2023, and 2022, the Company has the following inherent commitments to the IMMEX program:

- All income from production operations must arise exclusively from its maquila operation, although the company may receive income from services rendered, goods leased, waste sold, goods sold (not manufactured by the Company) and other income pertaining to its operations, provided certain requirements are met and that income does not exceed 10% of the maquila operation income.
- To allocate the goods temporarily imported under the IMMEX program for authorized purposes.
- Return the merchandise abroad in the corresponding terms according to what is established in the Customs Law or in the maquila program. As of December 31, 2023 and 2022, the Company has in its custody inventories owned by its related party, temporarily imported, with an approximated value of Ps.232,744,912 and Ps.184,366,833; respectively.
- Keep the imported goods temporarily at the addresses registered in the program.
- Request the Ministry of Economy, prior processing before the Tax Administration Service (TAS), the registration of changes in the data stated in the application for the approval of the maquila program, such as company name, address and federal taxpayer registry, as well as suspension of activities.



- Keep an automated inventory control with certain minimum information.
- Submit an annual report electronically to the Ministry of Economy and the TAS, regarding total sales and exports, corresponding to the immediately preceding fiscal year, no later than the last business day of the month of May of the following year.
- Additionally, when returning temporarily imported materials and supplies, the maquiladora must pay the import taxes corresponding to those materials whose country of origin has not signed a free trade agreement; Likewise, the VAT corresponding to the importation of machinery and equipment must be paid, once the IMMEX program is canceled and these assets remain in Mexico.

#### Contingencies

- a) The Company has entered into service agreements with related parties, under which the Company provides services of maquila necessary for the Company's operation. These agreements are for an undefined period.
- b) In compliance with Mexican Income Tax Law, the Company is subject to tax reviews from authorities up to five fiscal years prior to the last annual tax return filed. Therefore, the Company is contingent to any tax assessment as a result of a tax authority review, plus fines and penalties.
- c) Companies that carry out transactions with domestic and foreign related parties are subject to tax limitations and obligations regarding their determined agreed-upon prices. These prices must be equal to those that would be used with or between independent related parties in comparable transactions. In the case the tax authority determined differences on such prices in a review, the Company would be liable for the assessed tax omitted plus fines and surcharges and, an additional penalty that could reach the total amount of the omitted tax assessed by the authority.



Martha Elena Montoya  
Controller