ALPHABET DE MÉXICO DE MONCLOVA, S.A. DE C.V.
(Subsidiary of MSSL (GB) Limited)

Financial statements

Years ended December 31, 2019 and 2018
with report of independent auditors

ALPHABET DE MÉXICO DE MONCLOVA, S.A. DE C.V.
(Subsidiary of MSSL (GB) Limited)

Financial statements

At December 31, 2019 and 2018

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INDEPENDENT AUDITORS REPORT

At the General Shareholders' Meeting
Alphabet de México de Monclova, S.A. de C.V.

Qualified opinion

We have audited the accompanying financial statements of Alphabet de México de Monclova, S.A. de C.V. which comprise the statement of financial position as at December 31, 2019, and the statement of income, statement of changes in stockholders' equity and statement of cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the issues described in the section "Foundations for qualified opinion", the accompanying financial statements present fairly, in all material respects, the financial position of Alphabet de México de Monclova, S.A. de C.V. as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards ("MFRS").

Foundations for qualified opinion

1. As discussed in Note 1b) to the accompanying financial statements, for the years ended December 31, 2019 and 2018, the Company did not recognize the cumulative effects of inflation as required by Mexican Financial Reporting Standard (MFRS B-10 "Effects of inflation") through December 31, 2007. Nevertheless, management determined that it was not practical to calculate the inflation effects for each account of the financial statements as at December 31, 2019 and 2018. The lack of recognition of the effects inflation is considered a material deviation for the accompanying financial statements.

2. As discussed in Note 1n) to the accompanying financial statements, the Company did not recognize deferred taxes as at December 31, 2019 and 2018, as required by Mexican Financial Reporting Standard (Mexican FRS) D-4 Income tax. In accordance with Mexican FRS D-4, deferred taxes should be recognized on all temporary differences between the financial reporting and tax values of assets and liabilities at the reporting date. Nevertheless, management determined that it was not practical to calculate the Company's deferred taxes as at December 31, 2019 and 2018.

3. As discussed in Note 1k) to the accompanying financial statements, the Company did not recognize deferred employee profit sharing as at December 31, 2019 and 2018, as required by Mexican Financial Reporting Standard D-3 Employee benefits, since management determined that it was not practical to calculate the Company's deferred employee profit sharing as at December 31, 2019 and 2018.

4. As discussed in Note 1j) to the accompanying financial statements, the Company did not record a provision for its obligation related to termination benefits as at December 31,2019 and 2018, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 Employee benefits. The lack of recognition of such liability is considered a material deviation for the accompanying financial statements. In addition local management determined that it was not practical to calculate the Company's employee benefit obligation.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the accompanying 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 from 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 applicable, 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 ISA, we exercise 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 cast significant 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 those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Emphasis of matter

1) As discussed in Note 10 of the financial statements, the Company change its accounting policy for the prospective recognition of lease arrangements as a result of the adoption of Mexican FRS D-5 “Leases”, effective as of January 1st, 2019. This matter does not modify our Audit opinion.

Mancera, S.C.
A Member Practice of
Ernst & Young Global Limited

Norberto Eugenio Treviño Martínez

San Pedro Garza García, N.L., México.
June 4, 2020.

ALPHABET DE MÉXICO DE MONCLOVA, S.A. DE C.V.
(Subsidiary of MSSL (GB) Limited)

Statements of financial position

(Amounts in Mexican pesos)

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash	$ 10,502,003	$ 6,119,304
Accounts receivable (Note 2)	6,541,657	5,488,938
Related parties (Note 3)	20,629,643	24,758,655
Prepaid expenses	2,741,549	5,401,982
Total current assets	40,414,852	41,768,879
Machinery, equipment and improvements, net (Note 4)	8,737,634	5,528,511
Right of use assets, net (Note 10)	45,198,026	-
Total assets	$ 94,350,512	$ 47,297,390
Liabilities and stockholder's equity		
Current liabilities:		
Suppliers	$ 1,496,924	$ 1,035,209
Direct benefits to employees (Note 6)	14,022,437	11,503,697
Accrued expenses and other taxes	11,398,966	11,728,872
Lease liabilities (Note 10)	11,218,607	-
Taxes payable (Note 9)	2,226,859	545,260
Total current liabilities	40,363,793	24,813,038
Long-term liabilities:		
Lease liabilities (Note 10)	34,633,291	-
Labor obligation (Note 7)	6,603,503	5,321,055
Total long-term liabilities	41,236,794	5,321,055
	81,600,587	30,134,093
Stockholder's equity: (Note 8)		
Capital stock	50,000	50,000
Retained earnings	12,699,925	17,113,297
Total stockholder's equity	12,749,925	17,163,297
Total liabilities and stockholder's equity	$ 94,350,512	$ 47,297,390

The accompanying notes are an integral part of these financial statements.

Edgar Roberto García
Comptroller

ALPHABET DE MÉXICO DE MONCLOVA, S.A. DE C.V.
(Subsidiary of MSSL (GB) Limited)

Statements of income

(Amounts in Mexican pesos)

	For the years ended December 31, 2019	2018
Revenues:		
Maquila revenues (Note 3)	$ 407,962,142	$ 355,226,847
Other income, net	279,604	2,925,589
	408,241,746	358,152,436
Expense and cost:		
Expense of maquila	(383,511,402)	(334,674,273)
Operating income	24,730,344	23,478,163
Comprehensive financing cost:		
Interest (expense) income, net	(4,119,754)	3,239
Exchange gain, net	561,673	91,848
	(3,558,081)	95,087
Income before taxes on profits	21,172,263	23,573,250
Income tax (Note 9)	(8,472,338)	(6,459,953)
Net income	$ 12,699,925	$ 17,113,297

The accompanying notes are an integral part of these financial statements.

Edgar Roberto García
Comptroller

ALPHABET DE MÉXICO DE MONCLOVA, S.A. DE C.V.
(Subsidiary of MSSL (GB) Limited)

Statements of changes in stockholder's equity

For the years ended December 31, 2019 and 2018

(Amounts in Mexican pesos)

	Capital stock	Retained earnings	Total stockholder's equity
Balance as of December 31, 2017	$ 50,000	$ 51,483,518	$ 51,533,518
Dividends paid (Note 8)		(51,483,518)	(51,483,518)
Net income		17,113,297	17,113,297
Balance as of December 31, 2018	50,000	17,113,297	17,163,297
Dividends paid (Note 8)		(17,113,297)	(17,113,297)
Net income		12,699,925	12,699,925
Balance as of December 31, 2019	$ 50,000	$ 12,699,925	$ 12,749,925

The accompanying notes are an integral part of these financial statements.

Edgar Roberto García
Comptroller

ALPHABET DE MÉXICO DE MONCLOVA, S.A. DE C.V.
(A Subsidiary of MSSL (GB) Limited)

Statements of cash flows

(Amounts in Mexican pesos)

	For the years ended December 31, 2019	For the years ended December 31, 2018
Operating activities		
Income before taxes on profits	$ 21,172,263	$ 23,573,250
Items in results of operations not affecting cash:		
Depreciation	1,576,032	752,006
Labor obligation	1,311,486	1,544,431
Accrued interest receivable	(2,159)	(3,239)
	24,057,622	25,866,448
Changes in operating assets and liabilities:		
Accounts receivable	628,880	365,416
Related parties	4,129,012	41,662,926
Prepaid expenses	2,660,433	(2,043,631)
Suppliers	461,715	(2,686,588)
Direct employees benefits	2,489,702	827,374
Taxes payable	(8,472,338)	(6,459,953)
Accrued expenses and other taxes	(420,353)	(3,234,521)
Net cash provided by operating activities	25,534,673	54,297,471
Investing activities		
Purchase of machinery, equipment and improvements	(4,785,155)	(4,649,063)
Right of use assets, net	653,872	-
Net cash flows used in investing activities	(4,131,283)	(4,649,063)
Financing activities		
Interest paid	2,159	3,239
Dividends paid	(17,022,850)	(51,483,518)
Net cash used in financing activities	(17,020,691)	(51,480,279)
Net increase (decrease in) in cash	4,382,699	(1,831,871)
Cash at beginning of year	6,119,304	7,951,175
Cash at end of year	$ 10,502,003	$ 6,119,304

The accompanying notes are an integral part of these financial statements.

Edgar Roberto García
Comptroller

ALPHABET DE MÉXICO DE MONCLOVA, S.A. DE C.V.
(A Subsidiary of MSSL (GB) Limited)

Notes to the financial statements

At December 31, 2019 and 2018

(Amounts in Mexican pesos, unless otherwise indicated)

1. Nature of operations and summary of significant accounting policies

Alphabet de México de Monclova, S.A. de C.V. (The "Company") started July 1, 2014 a subsidiary of MSSL (GB) Limited, (MSSL) it was founded in July 14, 2003, in accordance with Mexican law under the protection of the maquila program established by the Mexican Government. Its main activity is the design and manufacture of components, modules and electricity distribution systems and signals under a maquila agreement with MSSL Wiring System, Inc. (a related party).

The period of operations of the Company and the fiscal year, comprise from January 1 to December 31.

On June 4, 2020, the financial statements and these noted were authorized by the Comptroller, Edgar Roberto Garcia, for their issue and subsequent approval by the Company´s Board of Directors and the Stockholders who have the authority to modify the financial statements. Information on subsequent events covers the period from January 1st, 2019 through the above-mentioned issue date of the financial statements.

Summary of significant accounting policies

a) Compliance with Mexican Financial Reporting Standards

Except as mentioned in paragraphs b), j), k) and n), the accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (Mexican FRS).

b) Basis of preparation

The financial statements as of December 31, 2019 and 2018 have been prepared on a historical-cost basis. The Company did not determine the effects of inflation on its financial information through December 31, 2007 as required under Mexican FRS. Nevertheless, management determined that it was not practical to calculate the inflation effects for each account of the financial statements as at 31 December 2019 and 2018.

From January 1, 2008 Mexico is considered to have a non-inflationary economic environment, as defined under Mexican FRS B-10 "Effects of Inflation". As at December 31, 2019 and 2018, Mexico's cumulative inflation rate for the three prior years was 26% (annual average of 8%), which represents the necessary condition for considering Mexico as having a non-inflationary economic environment.

As determined based on the National Consumer Price Index (NCPI) published by the National Statistical and Geographical Information Agency (INEGI), Mexico's annual inflation rate for 2019 and 2018 is as follows:

	Cumulative inflation for 2018 (sum of inflation rates for 2016, 2017 and 2018)	Cumulative inflation for 2019 (sum of inflation rates for 2017, 2018 and 2019)	Inflation for the year (inflation rate for 2019)
Inflation rates	14.96%	14.43%	2.83%

c) Recognition of revenues

Maquila revenues are recognized at the moment in which the service is provided maquila, which consists basically in apply a percentage of profit on the costs and expenses incurred in the maquila process.

d) Use of estimates

The preparation of financial statements in accordance with Mexican FRS requires the use of estimates and assumptions in certain areas. The Company based its estimates on the best available information at the time the financial statements were prepared. However, the existing circumstances and assumptions about future events may change due to changes in the market or circumstances that are beyond the Company's control. Such changes are reflected in the assumptions as they occur.

The key assumptions used at December 31, 2019 and 2018, in determining estimates that involve uncertainty and may have a significant risk of causing adjustments relative importance on the carrying amount of assets and liabilities during the next financial year, are the following:

Impairment in the value of non-financial assets

Impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the fair value less costs to sell or value in use, whichever is greater. The calculation of fair value less costs to sell is based on information available on similar sales operations, made in conditions between independent parties for similar assets or observable market prices less incremental costs of disposal of the property. The calculation of value in use is based on a model of discounted cash flows. Cash flows arising from the budget for the next five years or more considering that growth rates should not be for more than five years and do not include restructuring activities to which the Company still has not committed, or investments significant future that will increase well performance or cash-generating unit to be tested. The recoverable amount is very sensitive to the discount rate used for the model of discounted cash flows and the expected future cash income to the growth rate used for extrapolation purposes.

Other disclosures relating to impairment of non-financial assets of the Company are included in:

- Machinery, equipment and improvements in Note 4.

Retirement benefits

The net cost of defined benefits pension plan and the present value of these labor obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, and mortality, disability, employee turnover rates, as well as certain financial and demographic assumptions. Due to the complexities involved in the valuation, the underlying assumptions, and the long-term nature of the valuation, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of marketable securities in currencies consistent with the currencies of the post-employment benefit obligation by reference to market yields on high-quality corporate bonds or when no such information is available, by reference to market yields on government bonds. When a corporate bond rate is used, the underlying bonds are further assessed for quality, and those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based due to their low quality. As at 31 December 2019 and 2018, the Company has used a government bond rate to discount its long-term defined employee benefits, since management believes that this rate best reflects the present value of the Company's expected future benefit payments based on the characteristics of plan participants and the estimated future payment dates of the benefits.

The mortality rate is based on Mexico's publicly available mortality tables.

Future salary increases are based on expected future inflation rates for Mexico considering a growth rate in the expected benefits.

Additional information on the assumptions used is provided in Note 7.

e) Cash

Cash principally consist of bank deposits.

f) Prepaid expenses

Prepaid expenses are initially recognized as assets as of the date the payment is made, provided that it is probable that the future economic benefits associated with the asset will flow to the Company.

At the time the goods or services are received, prepaid expenses are either capitalized or recognized in profit or loss as an expense, depending on whether there is certainty that the acquired goods or services will generate future economic benefits.

The Company periodically evaluates its prepaid expenses to determine the likelihood that they will cease to generate future economic benefits and to assess their recoverability. Unrecoverable prepaid expenses are recognized as impairment losses in profit or loss.

g) Machinery, equipment and improvements

Machinery, equipment and improvements, net are initially recognized at their acquisition value. In the case of assets that require a substantial period for use, comprehensive financing cost incurred during the construction and installation of the same is capitalized.

The acquisition value of machinery, equipment and improvements includes costs that have been incurred initially to be acquired or constructed and subsequently incurred to replace or increase its service potential. If an item of machinery and equipment consist of several components with different estimated useful lives, important individual components are depreciated over their individual useful lives

The depreciation of machinery, equipment and improvements is computated on the carrying value, using the straight-line method (since management considers that this method best reflects the use of these assets), based on the estimated useful life, as follow:

	Years
Leasehold improvements	20
Machinery and equipment	10
Furniture and fixtures	10
Computer equipment	3

An item of machinery, equipment and improvements is derecognized upon disposal or when no future economic benefits are expected from their use or sale. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net revenue from disposal and the carrying amount of the asset) it is included in the statement of comprehensive income when the asset derecognized.

The carrying amount of machinery, equipment and improvements is reviewed whenever there are indicators of impairment in the value of such assets. When the recoverable amount of an asset, which is the higher of the asset's expected net selling price and its value in use (the present value of future cash flows), is less than its net carrying amount, the difference is recognized as an impairment loss.

For the years ended as at 31 December 2019 and 2018, there were no indicators of impairment.

h) Other assets

Are composed mainly of security deposits delivered as part of the lease of the building where the plant is located.

i) Provisions, contingents and commitments

Provisions are recognized when (i) the Company has a present obligation (legal or constructive) as a result of a past event, (ii) it is probable (more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are recognized only when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Also, commitments are only recognized when they will generate a loss.

Contingent assets are recognized when the realization of income is mostly certain

j) Reserve for seniority premiums, termination benefits and other benefits

Seniority premiums are paid to workers as required by Mexican labor law. Under Mexican labor law, the Company is also obligated to make certain payments to workers who leave the Company or are dismissed in certain circumstances.

The premium costs seniority and termination benefits are recognized annually based on calculations by independent actuaries using the projected unit credit method using financial assumptions in nominal terms. The latest actuarial valuation was carried out in December 2019.

As at December 31, 2019 and 2018, the Company did not record a provision for its obligation related to termination benefits, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 Employee benefits, because management determined that it was not practical to calculate the Company's employee benefit obligation.

k) Employee Profit Sharing (EPS)

Current and deferred employee profit sharing is presented as part of costs or expenses in the statement of comprehensive income.

Deferred employee profit sharing is determined using the asset and liability method. Under this method, deferred employee profit sharing is calculated by applying the 10% rate to all temporary differences between the values of assets and liabilities for financial and tax reporting purposes. The Company periodically evaluates the possibility of recovering its deferred employee profit sharing assets and if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized.

The Company did not recognize deferred employee profit sharing as at December 31, 2019 and 2018, as required by Mexican FRS D-3, Employee benefits, since management determined that it was not practical to calculate the Company's deferred employee profit sharing as at December 31, 2019 and 2018.

l) Foreign exchange

Transactions in foreign currency are recognized at the prevailing exchange rate on the day of the related transactions. Foreign currency denominated assets and liabilities are valued at the prevailing exchange rate at the date of the statement of financial position.

Exchange differences from the transaction date to the time foreign currency denominated assets and liabilities are settled, as well as those arising from the translation of foreign currency denominated balances at the date of the statement of financial position, are recognized in the statement of comprehensive income.

See Note 5 for the Company's foreign currency position at the end of each period and the exchange rates used to translate foreign currency denominated balances.

m) Comprehensive income

The comprehensive income is the sum of the net profit or loss, Other Comprehensive Income (OCI) and participation in the OCI of other entities. For the years ended December 31, 2019 and 2018, comprehensive income equals net income for the year.

n) Income tax

Current income tax

Current income tax is recognized as a current liability, net of prepayments made during the year. Current income tax is recognized as an expense in profit or loss.

Deferred income tax

Deferred income tax is calculated using the asset and liability method. Under this method, deferred taxes are recognized on all temporary differences between financial reporting and tax values of assets and liabilities, applying the income tax rate as of the date of the statement of financial position, or the enacted rate at the date of the statement of financial position that will be in effect when the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

The Company periodically evaluates the possibility of recovering deferred tax assets and if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized.

The Company did not recognize deferred taxes as at December 31, 2019 and 2018, as required by Mexican FRS D-4, Income tax, since management determined that it was not practical to calculate the Company's deferred taxes as at December 31, 2019 and 2018.

o) Statement of comprehensive income presentation

Costs and expenses shown in the statement of comprehensive income are analyzed by their function in order to present cost of sales separately from other costs and expenses, since such classification allows for a more accurate evaluation of the Company's operating and gross profit margins.

Although not required to do, the Company includes operating income in the income statement, since this item is an important indicator for evaluating the Company's operating results.

p) Concentration of risk

As at December 31, 2019 and 2018, the Company provides its maquila services exclusively to its related party MSSL Wiring System, Inc. under a maquila program. Accordingly, in the event that the related party no longer requires these services, the Company's operating results could be adversely affected.

q) New accounting pronouncements

1) Standards, Interpretations and Improvements to Mexican FRS issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issue of the Company's financial statements are disclosed below.

The Company intends to adopt these standards, if applicable, when they become effective.

Guidance on Mexican FRS 5 Alternatives for transitioning to Mexican FRS D-5 Leases (effective as of 1 January 2020)

Guidance on Mexican FRS 5 Alternatives for transitioning to Mexican FRS D-5 Leases contains guidance on accounting for the transition to Mexican FRS D-5 upon initial adoption and provides a number of illustrative examples.

The adoption of Guidance on Mexican FRS 5 had no effect on the Company's financial statements.

Improvements to Mexican FRS for 2020

The improvements with accounting changes related to valuation, disclosures or presentation in the financial statements are as follows:

(i) Mexican FRS D-4 Income taxes and Mexican FRS D-3 Employee benefits

Entities are now required to account for the effects of uncertain tax treatments on their income tax and employee profit sharing. The improvements address matters such as: whether an entity should consider uncertain tax treatments separate or combined basis, the assumptions an entity must make when determining whether the tax treatment will be reviewed by the tax authorities, how an entity should determine its taxable profit, tax base, unused tax losses, unused tax credits and tax rates, methods for estimating the uncertainty, and how an entity should evaluate changes in facts and circumstances.

Since employee profit sharing is determined based on the same tax laws and using practically the same tax base as income tax, the above mentioned considerations related to the effects of uncertainty are also applicable to current and deferred employee profit sharing.

These improvements are effective for annual periods beginning on or after 1 January 2020, with early adoption permitted for annual periods beginning on or after 1 January 2019.

The adoption of these improvements had no effect on the Company's financial statements.

(ii) Mexican FRS D-4 Income taxes

Entities are now required to recognize the tax effects of distributions of dividends in equity, so when an entity recognizes a liability for distribution of dividends, it must also recognize the corresponding income tax liability, if applicable.

This improvement is effective for annual periods beginning on or after 1 January 2020, with early adoption recommended for annual periods beginning on or after 1 January 2019.

The adoption of this improvement had no effect on the Company's financial statements.

(iii) Mexican FRS D-5 Leases

a) Use of a risk free rate to discount future lease payments

Mexican FRS D-5 now includes an option for lessees to measure the lease liability at the commencement date of the lease, at the present value of the lease payments that are not paid at that date using a risk free rate. Lessees must elect whether to apply this option to each lease agreement and, if this option is elected, it must be applied until the end of the lease term.

Mexican FRS D-5 establishes that a risk free rate is the rate that reflects the time value of money under prevailing market conditions established for government bonds with specific maturities; a risk free rate does not take any other risks into account.

b) Separating components of a lease

Limitations were imposed on the use of the practical expedient set forth in Mexican FRS D-5 related to the separation of non-lease components or relatively insignificant components when determining the right of use asset and the lease liability.

The practical expedient establishes that, when it is difficult to separate the components, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. Lessees still may not apply this practical expedient to embedded derivates that meet the separation criteria in Mexican FRS C-10.

These improvements are effective for annual periods beginning on or after 1 January 2020, with early adoption permitted for annual periods beginning on or after 1 January 2019.

The adoption of these improvements had no effect on the Company's financial statements.

Improvements to Mexican FRS for 2018

The new financial reporting standards that will give rise to accounting changes related to valuation, disclosures or presentation in the financial statements are as follows:

(i) Mexican FRS B-2, Statement of cash flows

Mexican FRS B-2 introduces a new requirement that entities must now include in the notes to the financial statements, disclosures related to relevant changes in liabilities reported within financing activities that may or may not have required the use of cash or cash equivalents. In addition to the required disclosures, entities also need to include a reconciliation of beginning and ending balances for these items.

These improvements are effective for annual periods beginning on or after January 1 2018, with early adoption permitted for annual periods beginning on or after January 1 2017.

(ii) Mexican FRS B-10, Effects of inflation

Mexican FRS B-10 introduces a new requirement that the notes to the financial statements (whether restated for inflation or not) should, in addition to the cumulative inflation rate for the three prior years and the inflation rate used to determine whether the entity operates in an inflationary or not inflationary economic environment, state the following rates:

- The cumulative inflation rate for three years that includes the two prior years and the current year, which shall be the basis for determining whether the entity will operate in an inflationary economic environment in the following year.

- The inflation rate considered for purposes of preparing the financial statements.

These improvements are effective for annual periods beginning on or after January 1 2018, with early adoption permitted for annual periods beginning on or after January 1 2017.

(iii) Mexican FRS C-6, Property, plant and equipment and Mexican FRS C-8, Intangible assets

These accounting standards establish that the method used for the depreciation or amortization of an asset should reflect the pattern of consumption of the expected future economic benefits and not the pattern of generation of expected future economic benefits.

The standards also establish that the use of a depreciation or amortization method based on the amount of revenue earned from the use of the assets is no longer appropriate, since the amount of that revenue can be dependent on factors other than the pattern of consumption of the economic benefits of the asset. However, unlike Mexican FRS C-6, Mexican FRS-8 does allow entities to use a revenue-based depreciation or amortization method under certain circumstances.

These improvements are effective for annual periods beginning on or after January 1, 2018.

2. Accounts receivable

At December 31, 2019 and 2018, accounts receivable is as follows:

	2019	2018
Recoverable taxes	$ 6,541,657	$ 5,084,008
Other accounts receivables	-	404,930
	$ 6,541,657	$ 5,488,938

3. Related parties

The companies mentioned in this note are considered as affiliates, and the stockholders of these companies are also stockholders of the Company.

Balances with related parties at December 31, 2019 and 2018 parts are as follows:

	2019	2018
Receivable:		
MSSL Wiring System Inc. [(a)]	$ 20,629,643	$ 24,758,655

[(a)] 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.

Operations with related parties performed in the normal course of business, were as follows:

	2019	2018
Revenue:		
Revenue for maquila service	$ 407,962,142	$ 355,226,847

4. Machinery, equipment and improvements, net

At December 31, 2019 and 2018, the balances of machinery, equipment and improvements, are integrated as follows:

	2019	2018
Machinery and equipment	$ 9,508,570	$ 8,071,220
Leasehold improvements	10,727,023	5,913,972
Computer equipment	1,678,903	1,678,903
Furniture and fixtures	972,621	972,621
Construction in process	345,604	1,810,850
Total fixed assets	23,232,721	18,447,566
Accumulated depreciation	(14,495,087)	(12,919,055)
Machinery, equipment and improvements, net	$ 8,737,634	$ 5,528,511

Depreciation for the year 2019 and 2018 that was recognized in the income statement amounted to $1,576,032 and $752,006, respectively.

5. Transaction in foreign currency

a) At December 31, 2019 and 2018, the Company has assets and liabilities denominated in US dollars as follows:

	2019	2018
Dollars:		
Monetary assets	US$ 178,111	US$ 155,936
Monetary liabilities	(22,797)	(5,173)
Net monetary liability position	US$ 155,314	US$ 150,763

b) The exchange rates used to convert amounts before national currency were $18.27 and $19.65 for the US dollar as of December 31, 2019 and 2018, respectively. At June 4, 2020, date of the financial statements, the exchange rate is $21.8388 per dollar.

6. Direct benefits to employee

At December 31, 2019 and 2018, the Company has the following accruals related to direct benefits to employee:

	2019	2018
Holidays and holidays bonus	$ 5,787,898	$ 5,060,699
Wages to paid	4,976,378	3,822,036
Employee profit sharing	3,258,161	2,620,962
	$ 14,022,437	$ 11,503,697

7. Labor obligations

Seniority premium consists of a single payment of 12 days per worked based on the last salary, limited to twice the minimum wage established by law year. The related liability and annual cost of benefits is calculated by an independent actuary on the basis defined in the plans using the projected unit credit method.

At December 31, 2019 and 2018, the net cost of the period, defined benefit obligations related to the retirement plan (Seniority premium retirement), are as follows:

a) Net period cost:

	2019	2018
Integration net period cost:		
Labor cost of actual service	$ 966,688	$ 1,162,766
Net interest of liabilities (assets) net by defined benefit	511,508	397,378
Remediation recycling	(166,710)	(15,713)
Net period cost	$ 1,311,486	$ 1,544,431

b) Defined benefit obligations are shown below:

	2019	2018
Provisions to:		
Obligations for Benefits Acquired (OBA)	$ 876,442	$ 354,629
Obligations for benefits not acquired	5,727,061	4,966,426
Defined benefit obligations, net	$ 6,603,503	$ 5,321,055

c) The real interest rates used in the actuarial calculations were as follows:

	2019	2018
Discount benefit obligations:		
Projected present value	7.30%	9.90%
Salary increase	5.00%	5.00%

8. Stockholders' equity

a) Capital stock at December 31, 2019 and 2018 is represented by $50,000 registered shares with a value of $1.00 each. Variable capital is unlimited. The minimum fixed capital is represented by nominative common and released representative of the fixed portion of capital without right of withdrawal. Both the fixed and the variable portion of capital are represented by shares of Series "B" with nominal value of one peso each and are fully subscribed by foreign investors, such shares will be freely subscribed.

b) According to the general law of commercial companies, the company must separate from the net income of each year at least 5% to increase the legal reserve until it reaches 20% of the share capital. At December 31, 2019 and 2018 the company has not created the legal reserve.

c) The earnings distributed in excess of the balances of the accounts CUFINRE and CUFIN (Net Tax Income Account), shall be subject to corporate income tax in force at the time of distribution rate. The payment of this tax may be credited against income tax.

d) At regular shareholders' meetings held on December 13, 2019, the shareholders declared dividends of $17,113,297 which comes from CUFIN. Such dividends were cash-paid in full on December 18, 2019.

Dividends to individuals and legal persons resident abroad are paid on profits generated from 2014, will be subject to a withholding tax of an additional 10%.

9. Income tax

a) Income tax

The Mexican Income Tax Law (MITL) establishes a corporate income tax rate for Mexico of 30% for fiscal years 2019 and 2018.

The profit margin of 6.04% for maquila services for 2019 was determined using the so-called Fast Track methodology approved by the Mexican Tax Administration Service (SAT) and the U.S. Internal Revenue Service (IRS). As part of the Fast Track program, the Company's advance pricing agreement will be resolved using this approach.

The MITL establishes new requirements and limits regarding certain deductions, including restrictions on the deductibility of payroll-related expenses that are considered tax-exempt for employees, contributions to create or increase pension fund reserves, and Mexican Social Security Institute dues that are paid by the Company but that should be paid by the employees. The MITL also establishes that certain payments made to related parties shall not be deductible if they do not meet certain requirements.

For the years ended at December 31, 2019 and 2018, the Company reported a taxable income of $28,241,122 and $21,533,177, respectively, on which correspond income tax of $8,472,338 and $6,459,953, respectively.

b) Employee profit sharing

The MITL establishes that as of January 1, 2014, entities are to calculate their employee profit sharing on the basis of their taxable earnings for the year determined for income tax purposes, plus or minus the effects of certain adjustments specified in the Law.

10. Leases

Company as a lessee

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 leased assets. There are some lease contracts that include extension and termination options and variable lease payments, which are further discussed below:

	Right of use of assets
As at January 1st, 2019	$ 51,976,426
Charges to depreciation/amortization	(6,778,400)
As at December 31, 2019	$ 45,198,026

11. Contingencies

At December 31, 2019, the company has the following contingencies:

a) There is a contingent liability derived labor obligations mentioned in Note 1j).

b) In accordance with current tax legislation, the authorities are entitled to examine the five fiscal years prior to the last statement filed income tax.

c) According to the Law on Income Tax, companies that conduct transactions with related parties are subject to certain limitations and requirements, as to the determination of the agreed prices, as these must be comparable to those that would be used with arm's-length transactions. In the event that the tax authorities will review prices and reject the certain amounts may require, in addition to the collection of the tax, accessories corresponding (updating and surcharges), and penalties on unpaid taxes, which could become even 100% of the amount of contributions updated. The Company's policy is to conduct a transfer pricing study to evaluate the operations carried out with related parties.

d) At December 31, 2019 and 2018, and the date of issuance of these financial statements, the Company as maquiladora industry has the following commitments inherent in the IMMEX program, which have been met:

Conduct annual sales abroad for a value of USD$500,000, or its equivalent in national or invoice exports of at least 10% of its total turnover currency.

- Allocate temporarily imported under IMMEX program authorized purposes goods.

- Foreign return the goods within the period determined under the provisions of the Customs Law or the maquila program. At December 31, 2019 and 2018, the Company had under custody temporarily imported inventory owned by his holding company with an approximate value of US$5,301,747 and US$4,471,207, respectively (unaudited amounts).

- At December 31, 2018, the Company had under custody temporarily imported assets owned by his holding company with an approximate value of $157,272,285 (unaudited amounts).

- Maintain temporarily imported goods at the address registered in the program.

- Request of Secretary of Economy, following proceedings before the Mexican Tax Authorities (SAT), registration of changes in the data given in the request for approval of the maquila program, such as company name, address and federal registration of taxpayers, and suspension of activities.

- Maintain a control of automated inventory with certain minimum information.

- Submit an annual report no later than electronically to the Secretary of Economy and the Mexican Tax Authorities (SAT) respect to total sales and exports for the fiscal year immediately preceding the last business day of the month of May of the following year.

- In addition, returning the materials and inputs imported temporarily, the maquiladora must pay import taxes corresponding to those materials whose country of origin has not signed a bilateral free trade, likewise, you must pay the VAT on imports machinery and equipment, once it is canceled the IMMEX program and these assets remain in Mexico.

12. Subsequent events

After December 31, 2019, a Global emergency situation was identified worldwide, which has evolved to be called a pandemic situation during the first half of 2020, generated by the appearance of the novel Coronavirus (Covid-19), therefore, our income and our workforce could be affected as a result of an outbreak of this virus.

Additionally, we are aware that this pandemic can cause disruptions in the operation of our clients and in the national and international economy. Therefore, the impact that the coronavirus affects our results as of the date of this report is highly uncertain.

Edgar Roberto García
Comptroller