
MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.
(Subsidiary of Motherson Techno Precision GmbH)

Financial statements

As of December 31, 2019 and 2018
with the report of the independent auditors

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(Subsidiary of Motherson Techno Precision GmbH)

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Torre Equus
335 Ricardo Margain
Valle del Campestre
San Pedro Garza Garcia, Nuevo León
C.P. 66265

Tel: (81) 8152 1800
Fax: (81) 8152 1839
ey.com.mx

INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Motherson Techno Precision México, S.A. de C.V.

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Motherson Techno Precision México, 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").

Basis for opinion

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 section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("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 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.

Auditors' 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 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 ISAs, 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.

Emphasis of matter

As discussed in Note 2n), the Company revised 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 1, 2019. This matter does not modify our audit opinion.

We draw attention to Note 14, which indicates that at December 31, 2019, the Company had an insufficiency in capital stock of \$31,286,382 and had lost more than two thirds of its capital stock which, according to the General Law of Commercial Societies, might produce dissolution. These events or conditions, along with other matters as set forth in Note 14, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The engagement partner on the audit resulting in this independent auditor's report, is who signs it.

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



Aldo A. Villarreal Robledo

May 15, 2020.

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.
(Subsidiary of Motherson Techno Precision GmbH)

Statements of financial position

(Amounts in Mexican pesos)

	As at December 31,	
	2019	2018
Assets		
Current assets:		
Cash (Note 5)	\$ 6,731,177	\$ 7,220,589
Accounts receivable	28,368,475	34,103,040
Related parties (Note 6)	424,214	-
Recoverable value add tax	1,723,615	1,858,651
Inventories (Note 7)	32,308,281	39,133,720
Prepaid expenses	1,928,816	1,914,925
Total current assets	71,484,578	84,230,925
Non-current assets:		
Machinery and equipment, net (Note 8)	28,240,534	34,494,921
Intangible assets (Note 9)	275,853	405,038
Deferred income tax (Note 15)	26,857,575	21,139,930
Deferred employee profit sharing (Note 13)	9,256,863	7,124,112
Right of use assets (Note 10)	9,397,318	-
Total non-current assets	74,028,143	63,164,001
Total assets	\$ 145,512,721	\$ 147,394,926
Liabilities and equity		
Current liabilities:		
Suppliers	\$ 7,421,620	\$ 19,667,550
Tax payable	3,275,071	4,283,064
Lease liabilities (Note 10)	7,647,962	-
Related parties (Note 6)	1,368,214	5,385,448
Provisions and accrued liabilities	65,560,186	56,623,044
Short-term employee benefits (Note 13)	6,213,481	6,347,145
Total current liabilities	91,486,534	92,306,251
Long-term liabilities:		
Lease liabilities (Note 10)	1,561,557	-
Long-term related parties (Note 6)	83,088,131	109,438,914
Net employee defined benefit liabilities (Note 12)	662,881	863,923
Total long-term liabilities	85,312,569	110,302,837
Total liabilities	176,799,103	202,609,088
Equity (Note 14):		
Share capital	50,000	50,000
Accumulated losses	(55,264,162)	(58,060,590)
Net profit	23,927,780	2,796,428
Total equity (deficit)	(31,286,382)	(55,214,162)
Contingencies and commitments (Note 17)	-	-
Subsequent events (Note 18)	-	-
Total liabilities and equity	\$ 145,512,721	\$ 147,394,926

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


Martha Butron
Operations Manager

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.
(Subsidiary of Motherson Techno Precision GmbH)

Statements of income

(Amounts in Mexican pesos)

	For the years ended December 31,	
	2019	2018
Revenue from contracts with customers (Note 4.a)	\$ 195,279,157	\$ 199,619,404
Cost of sales (Note 16.a)	(114,863,360)	(129,723,876)
Gross profit	80,415,797	69,895,528
Operating expenses (Note 16.a)	(43,516,464)	(49,959,585)
Operating profit	36,899,333	19,935,943
Net financing cost (Note 16.b):		
Interest income	7,048	13,863
Interest expense and other finance expenses	(4,087,189)	(4,153,818)
Foreign exchange gain, net	2,317,968	1,500,441
	(1,762,173)	(2,639,514)
Profit before income tax	35,137,160	17,296,429
Income tax (Note 15)	(11,209,380)	(14,500,001)
Net profit	\$ 23,927,780	\$ 2,796,428

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


Martha Butron
Operations Manager

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.
(Subsidiary of Motherson Techno Precision GmbH)

Statements of changes in equity

For the years ended December 31, 2019 and 2018

(Amounts in Mexican pesos)

	Share capital	Accumulated losses	Net profit	Total equity (deficit)
Balance as at December 31, 2017 (deficit)	\$ 50,000	\$ (62,095,959)	\$ 4,035,369	\$ (58,010,590)
Application to accumulated losses		4,035,369	(4,035,369)	-
Net profit			2,796,428	2,796,428
Balances at December 31, 2018 (deficit)	50,000	(58,060,590)	2,796,428	(55,214,162)
Transfer to accumulated losses		2,796,428	(2,796,428)	-
Net profit			23,927,780	23,927,780
Balances at December 31, 2019 (deficit)	\$ 50,000	\$ (55,264,162)	\$ 23,927,780	\$ (31,286,382)

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



Martha Butron
Operations Manager

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.
(Subsidiary of Motherson Techno Precision GmbH)

Statements of cash flows

(Amounts in Mexican pesos)

	For the years ended December 31,	
	2019	2018
Operating activities		
Profit before income tax	\$ 35,137,160	\$ 17,296,429
Items not affecting cash flows:		
Employees' benefits	(201,042)	32,929
Deferred employee profit sharing	(2,132,751)	(1,078,169)
Items related to investing activities:		
Depreciation of machinery and equipment and right of use assets	18,257,380	9,489,074
Amortization	129,185	128,560
Interest income	(7,048)	(13,863)
Gain on sale of machinery	(20,520)	-
Items related to financing activities:		
Interest expense	4,087,189	4,153,818
Total	55,249,553	30,008,778
Changes in operating assets and liabilities:		
Accounts receivable and others	5,869,601	(7,427,937)
Inventories	6,825,439	(12,021,648)
Prepaid expenses	(13,891)	-
Related parties, net	(4,441,448)	3,713,427
Suppliers and other accounts payable	(12,245,930)	10,201,189
Sundry creditors and other accounts payable	(17,190,567)	1,978,193
Interest received	7,048	13,863
Net cash flows from operating activities	34,059,805	26,465,865
Investment activities:		
Proceeds from sale of machinery	430,864	-
Purchase of machinery and equipment	(4,542,110)	(10,208,550)
Purchase of intangible assets	-	(20,000)
Net cash used in investment activities	(4,111,246)	(10,228,550)
Cash surplus to be applied to financing activities	29,948,559	16,237,315
Financing activities		
Long-term related parties	(26,350,782)	(18,152,526)
Interest paid	(4,087,189)	(4,153,818)
Net cash used in financing activities	(30,437,971)	(22,306,344)
Decrease of cash	(489,412)	(6,069,029)
Cash at beginning of year	7,220,589	13,289,618
Cash at end of year	\$ 6,731,177	\$ 7,220,589

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


Martha Butron
Operations Manager

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.
(Subsidiary of Motherson Techno Precision GmbH)

Notes to the financial statements

December 31, 2019 and 2018

(Amounts expressed in Mexican pesos, unless otherwise indicated)

1. Operations

Motherson Techno Precision México, S.A. de C.V. (collectively, "the Company") which is a subsidiary of Motherson Techno Precision GmbH and MSSL GmbH, which in turn is a subsidiary of Motherson Sumi Systems Limited and a corporation incorporated under the laws of Mexico on April 8, 2013. Its main address is San Luis Potosí, SLP and it primarily manufacturing, design, assembly, production and commercialization in any form of any kind of turned and milled parts of high-quality precision, particularly parts for fueling. The Company is a 99.9% owned direct subsidiary of Motherson Techno Precision GmbH (direct holding company), and an indirect subsidiary of Motherson Sumi Systems Limited (ultimate holding company).

Manufacturing and sales operation of the Company are made in accordance with the terms of contracts between Motherson Techno Precision México, S.A. de C.V., and its client Continental Inc., in the territories and in accordance with such contract signed in 2013 and ends December 31, 2019. During 2019 and 2018 sales to Continental Inc., represent 100% of total production of the Company, consequently, is economically dependent on the continuance of the contract.

The Company has been incorporated for an unspecified term.

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

On May 15, 2020, the financial statements and these notes were authorized by the Company's Plant Manager, Martha Butron, for their issue and subsequent approval by the Company's Board of Directors and shareholders, who have the authority to modify the financial statements. Information on subsequent events covers the period from January 1, 2019 through the above-mentioned issue date of the financial statements.

2. Summary of significant accounting policies

a) Compliance with Mexican Financial Reporting Standards

The financial statements as of December 31, 2019 and 2018 have been prepared in accordance with Mexican Financial Reporting Standards ("MFRS" or "Mexican FRS").

b) Basis of presentation

The financial statements as of December 31, 2019 and 2018, have been prepared on a historical-cost basis.

2.

The amounts shown in the financial statements and these notes are in thousands of Mexican pesos, (\$) except where otherwise indicated.

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. Accordingly, the Company ceased restating its financial statements for inflation as of January 1, 2008.

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

Under Mexican FRS, this cumulative inflation rate represents the necessary condition for considering Mexico as having a non-inflationary economic environment, which means that the financial statements should be prepared on a historical cost basis.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- expected to be realized within twelve months after the reporting period
- held primarily for the purpose of trading, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

c) Basis of translation of financial statements

The Company's financial statements are presented in Mexican pesos, which is the currency of the economic environment in which the parent company operates, to record its operations, and the reporting currency of the Company for consolidation purposes. Accordingly, the preparation of the financial statements did not require any foreign currency translation.

An analysis of the reporting, functional, and presentation currencies of the Company and its subsidiaries and associates, as determined in accordance with Mexican FRS B-15 Foreign Currency Translation, is as follows

	Reporting currency	Functional currency	Presentation currency
Motherson Techno Precision de México, S.A. de C.V.	Mexican pesos (Ps)	US Dólar (USD)	Mexican pesos (Ps)

Management has established the US Dollar as functional currency the financial statements are presented on Mexican pesos; this currency is also used to record operations and report financial statements.

The financial statements are issue for legal and tax purposes, therefore are not subject to consolidation or valuation base on equity method, company did not perform the conversion of recording currency to functional currency in accordance with INIF 15 Financial statements, where reporting currency is equal to entry currency, but different from functional currency.

d) Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's Valuation area determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement, such as assets held for sale in discontinued operations.

4.

At each reporting date, the Valuation area analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the administration verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The administration also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the administration presents the valuation results to the Audit Committee and the Company's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments that are measured at fair value are summarized in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Notes 2d), 4 and 5.a.3
Quantitative disclosures of fair value measurement hierarchy	Note 4
Financial instruments (including those carried at amortized cost)	Note 2h) and 5.a.4

e) Revenue from contracts with customers

The Company's primarily activity is manufactures and sells parts for the automotive industry.

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 2f).

Sale of goods

Revenue from sale of automotive parts ("the parts") is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the parts. The normal credit term is 30 to 60 days upon delivery.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of parts, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

Contract balances

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Note 2h) of financial instruments initial recognition and subsequent measurement.

Contract liabilities and advances from customers

A contract liability is the obligation to transfer the control over goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is due, and an advance from customers when the payment is made. Contract liabilities (or advance from customer) are recognized as revenue when the Company performs its performance obligations under the contract.

Assets and liabilities arising from rights of return

Right of return assets

Right of return asset represents the Company's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the product before its sale (e.g., inventory), less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Company updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products. The Company presents separately the asset from the refund liability.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Company ultimately expects it will have to return to the customer.

The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period to take into consideration the corresponding changes of circumstances. Refer to above accounting policy on variable consideration.

f) Use of estimates

The preparation of the Company's financial statements in accordance with Mexican FRS requires management to make judgements, estimates and significant assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The Company and its subsidiaries based its estimates on the available information at the time the financial statements were prepared. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

6.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Financial instruments risk management and policies Note 5.a.4
- Sensitivity analyses disclosures Note 5.a.4

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

Leases

- Determining the lease term of contracts with renewal and termination options - Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset). The Company included the renewal period as part of the lease term for leases of buildings with shorter non-cancellable period (i.e., three to five years). The Company typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of buildings with longer non-cancellable periods (i.e., 5 years) are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Company typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options.

Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

- Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its Incremental Borrowing Rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment at contract inception date. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Provision for Expected Credit Losses (ECL) of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions.

The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables and contract assets is disclosed in Note 2h), 2i), 4.a.2 and 4.b.

Impairment in the value of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal or its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years or more, taking into account that growth rates must not be further than five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

8.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Additional disclosures related to impairment in the value of the Company's non-financial assets are included in:

- Machinery and equipment Note 2m)
- Sensitivity analyses, which are described with further detail Note 5.a.4

Defined benefit plans (pension 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 12.

g) Cash

Cash principally consist of petty cash balances in local and foreign currency and bank deposits. Cash and cash equivalents are stated at fair value.

Cash and cash equivalents in foreign currency are translated using the rate of exchange prevailing at the reporting date. Exchange differences are recognized in the statement of comprehensive income as they accrue.

h) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under Mexican FRS D-1 Revenue from contracts with customers. Refer to the accounting policies in Note 2e) Revenue from contracts with customers.

Derecognition

A financial asset (or a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

10.

Impairment of financial assets

The Company recognizes an allowance for Expected Credit Losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit risk exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at the initial date of recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, accounts payable or derivative designed as effective hedging instruments.

All financial liabilities are initially measured at fair value, and for loans and accounts payable are measured including transaction cost directly attributable.

Company's financial liabilities includes trade creditors and other payable accounts, and loans.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at amortized cost (loans)

Financial liabilities at amortized cost (loans)

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans.

Financial liabilities derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

(iii) Offsetting of financial instruments

The Company may offset a financial asset and a financial liability and present the net amount in its statement of financial position only when:

- It has the right or an obligation to receive or pay a single net amount and intends to do so, and it has, in effect, only a single financial asset offset or financial liability offset; and
- the net amount resulting from offsetting the financial asset and the financial liability reflects the Company's expected cash flows from settling two or more separate financial instruments.

Based on the above, the Company offsets a financial asset and a financial liability and presents the net amount in its statement of financial position only when it:

- Has an enforceable legal right to set off the recognized amounts under any circumstance; and at the same time
- intends either to settle on a net basis the financial asset and liability, or to realize the financial asset and settle the financial liability simultaneously.

(iv) Transfer of financial assets

The Company is considered to have transferred a financial asset only when it:

- Transfers the contractual rights to receive the future cash flows of the financial asset, or
- retains its contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipient in an arrangement that meets all the following conditions:
 - The transfer contract establishes the obligation to pay the recipient the amount the Company collects from the original financial asset,
 - the Company is prohibited by the terms of the transfer contract from selling or pledging the original asset, and

12.

- the Company has an obligation to remit any cash flows it collects on behalf of the eventual recipients. The Company is not entitled to reinvest the cash flows except for the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed on to the eventual recipients.

When the Company transfers a financial asset, it must evaluate to what extent it retains the risks and rewards of the financial asset in order to identify the appropriate accounting treatment. Consequently:

- If the Company substantially transfers all of the risks and rewards of ownership of the financial asset, the Company must derecognize the financial asset and recognize separately as assets and liabilities any rights or obligations created or retained in the transfer (non-recourse transfer);
- if the Company substantially retains all the risks and rewards of ownership of the financial asset, the entity should continue to recognize the financial asset and recognize a liability, since the transaction essentially represents secured borrowing with a pledge of collateral on the financial asset (transfer with recourse);
- if it is not clear and convincing to what extent the Company substantially transfers all the risks and rewards of ownership of the financial asset, the Company must determine whether it has retained control of the financial asset by evaluating the extent of its continuing involvement in the transferred asset. In this case:
 - If the Company has not retained control over the financial asset, it must derecognize the financial asset and recognize simultaneously any rights or obligations created or retained in the transfer; or
 - if the Company has retained control, it must continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

i) Trade receivables and other accounts receivable

Accounts receivable represent the consideration to which an entity is entitled in exchange for satisfaction of a performance obligation through the transfer of a promised good or service to a customer.

Trade receivables are considered to be financial assets (IFC as are known in Spanish), as they arise from a contract that establishes the contractual obligations of the parties.

Accounts receivable are recognized upon accrual of the transaction giving rise to them, which occurs when control over the promised good or service is transferred to the customer in execution of the terms of the related contract. Accounts receivable are only recognized when they meet the conditions for recognition of the corresponding revenue in accordance with Mexican FRS D-1 Revenue from contracts with customers.

The amount of a receivable can vary because of rebates, discounts or refunds, and the corresponding changes to the consideration amount are recognized at the time the customer becomes entitled to such rebate, discount or refund. Accounts receivable are initially recognized at the transaction price determined in accordance with Mexican FRS D-1 and subsequently adjusted to the amount of the transaction price that has not been collected from the customer.

Receivables denominated in foreign currency or in another medium of exchange are translated to the Company's functional currency using the rate of exchange prevailing at the reporting date. Changes in the amount of trade receivables arising from exchange rate fluctuations are recognized as part of net financing cost.

Accounts receivable are classified as either short-term or long-term depending on the length of their terms. Accounts receivable that are due within one year of the reporting date (or within the entity's normal business cycle if it exceeds one year) are classified as short-term. All other accounts receivables are classified as long-term.

The Company records an allowance for expected credit losses in profit or loss upon initial recognition of its trade receivables, based on an assessment of their recoverability, and then recognizes the changes to the allowance that arise in each subsequent period.

Related party receivables arising from the sale of goods or services are presented and disclosed separately, since these receivables have special characteristics with respect to their collectability.

Other accounts receivables are initially recognized as they accrue and represent amounts owed to an entity arising from transactions that are unrelated to its normal operations (loans to shareholders, officers and employees, insurance claims, recoverable taxes when the Company is entitled in accordance with the corresponding tax law), and which the entity expects to receive within one year of the reporting date (or within the entity's normal business cycle if it exceeds one year). Other accounts receivables are presented as part of current assets.

Other accounts receivables are measured at the amount of the consideration to which the Company is entitled, which is generally the nominal amount of the receivable at initial recognition, and the uncollected nominal amount upon subsequent recognition.

j) Allowance for expected credit losses

The Company recognizes an allowance for expected credit losses and exercises its judgement to determine the expected credit losses of its trade receivables, taking into consideration its historical credit loss experience, current circumstances, and reasonable and sustainable forecasts of different future quantifiable events that could reduce the future cash flows earned from the Company's receivables.

The Company recognizes the allowance for expected credit losses related to accounts receivable in accordance with Mexican FRS C-16 Impairment of financial assets.

k) Inventories

Inventories are valued at the lower of either their cost or net realizable value. The cost of inventories includes all purchase and production costs incurred in bringing each product to its present location and condition. Inventories are valued as follows:

- Raw materials: at cost using the average cost method.
- Finished goods and goods in process: based on the cost of materials and direct labor costs, as well as indirect production expenses, excluding borrowing costs.

14.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

The Company records impairment losses on the value of its inventories when there are losses from firm sales commitments in excess of its inventory stock levels. When the net realizable value of inventories is less than their net carrying amount, the difference is recognized as an impairment loss as part of cost of sales.

l) 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.

Prepaid expenses denominated in foreign currencies are translated using the exchange rates prevailing at the dates of the initial transactions, with no subsequent adjustments recorded for changes in the exchange rates of the currency in which the prepayments were made.

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.

m) Machinery and equipment

Machinery and equipment are measured initially at cost.

Those assets requiring a substantial period of time to get ready for their intended use, the acquisition (construction) cost includes: the acquisition cost of the asset and capitalized borrowing costs incurred during the acquisition period (construction and installation) of the asset.

The cost of acquiring machinery and equipment includes the costs initially incurred to acquire or build the asset, plus costs subsequently incurred to replace the asset or enhance its service capability. For machinery and equipment made up of components with different estimated useful lives, the major individual components are depreciated over their individual useful lives. Repair and maintenance costs are expensed as incurred.

Depreciation of machinery and equipment is calculated on the asset's acquisition cost less the residual value of machinery and equipment on a straight-line basis (since management considers that this method best reflects the use of these assets) and over the estimated useful lives of the assets, as follows:

	Annual depreciation rate
Machinery and equipment	17%
Leasehold improvements	5%
Computer equipment	30%
Office furniture and equipment	8%
Tools	35%

Prepayments to suppliers are capitalized in machinery and equipment at the time the risks and rewards of ownership of the goods have been transferred to the Company.

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

The carrying amount of machinery and equipment 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 items of machinery and equipment, when the circumstances that caused the impairment loss are favorably resolved and there are observable indications that the net carrying amount of the asset has increased, the impairment loss is reversed. When an impairment loss is reversed, the amount recognized shall be net of depreciation for the year in which the reversal occurs.

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

n) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets (based on its materiality). The Company recognizes lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets.

16.

(i) Right of use assets

The Company recognizes right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation or amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the initial amount of lease liabilities recognized, initial direct costs incurred by the lessee, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are depreciated or amortized on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Buildings	7 years
Motor vehicles and other equipment	3 years

The Company's lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation or amortization is calculated using the estimated useful life of the asset.

The right of use assets is also subject to impairment. Refer to the accounting policies in Note 2f) Use of estimates, specifically about the impairment in the value of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term.

The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are presented separately in the statement of financial position.

o) Intangible assets

Project development costs are capitalized only when such costs can be reliably quantified, the Company expects to obtain future economic benefits from the investment and the Company maintains control over such benefits.

Capitalized development costs are measured initially at cost.

Intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets, as follows:

	Annual amortization rate
Software	<u>5%</u>

Intangible assets with indefinite useful lives are not amortized.

The Company's policy is to review the carrying amounts of its intangible assets with finite useful lives 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.

Intangible assets with indefinite useful lives, including those that are not yet available for use, and intangible assets with finite useful lives whose amortization period exceeds twenty years from the date they were available for use, are tested for impairment on an annual basis.

For the years ended as at 31 December 2019 and 2018, there were no indicators of impairment in the value of the Company's intangible assets.

p) 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.

When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is mostly certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

18.

If the effect of the time value of money is material, provision amounts are determined as the present value of the expected outflow of resources to settle the obligation. The provisions are discounted using a pre-tax rate that reflects the current market conditions at the date of the statement of financial position and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

The recognized amounts as provisions are management's best estimates of expenditures required to settle the obligation at the time the financial statements were prepared.

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 virtually certain.

q) Net employee defined benefit liabilities

The Company has a defined benefit pension plan that covers all of its employees. Pensions are determined based on the employees' compensation in their final year of service, the number of years they have worked for the Company, and their age at retirement.

Seniority premiums are paid to workers as required by Mexican Labor Law. Additionally, under Mexican Labor Law, the Company is liable to make certain payments to workers who terminate employment or are dismissed in certain circumstances.

The Company annually recognizes the liability for pensions, seniority premiums and termination benefits for so-called "pre-existing obligations" is based on independent actuarial calculations applying the projected unit credit method, using financial assumptions net of inflation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the return on plan assets, are immediately recognized in profit.

Past service costs are recognized at the earlier of the following dates:

- When the plan amendment or curtailment occurs.
- When the Company recognizes related restructuring costs.

Additional information is described in Note 12.

r) Compensated absences

Costs arising from compensated absences, such as holidays, are cumulatively recognized by which the respective provision is created.

s) Employee Profit Sharing (EPS)

Current and deferred employee profit sharing are 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 determined 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 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.

Deferred employee profit sharing assets and liabilities relating to items outside profit or loss from components of other comprehensive income that have not yet been realized are recognized in equity and reclassified to profit or loss immediately as accrued.

t) Exchange differences

Transactions in foreign currencies are initially translated using the exchange rates prevailing on the day of the initial transactions. Foreign currency denominated assets and liabilities are translated using the exchange rate ruling at the reporting date.

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 reporting date, are recognized in the statement of income.

See Note 11 for the Company's foreign currency consolidated position at the end of each period and the exchange rates used to translate foreign currency denominated balances.

u) Comprehensive income

For the years ended December 31, 2019 and 2018, comprehensive income equals net income for the year.

v) 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 expenses in profit or loss, except to the extent that it arises from transactions or other events recognized outside profit or loss, either in comprehensive income or directly in equity.

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 enacted 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.

20.

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.

Asset tax is treated as a tax credit, and the Company makes an appropriate evaluation of its recovery in the future

w) 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 so under Mexican FRS, the Company includes operating income in the income statement, since this item is an important indicator for evaluating the Company's operating results, given that this is a common disclosure in the industry in which the Company operates

the income statement, because such information is a common practice in the industry the entity belongs to.

Allowance for bad debts, bonus and discounts are recognized based on studies made by the Company's management and considered sufficient to absorb losses. Applications to such allowance are recognized in the income statement of the year.

x) Equity

Changes in the Company's equity, legal reserve and cumulative losses are recognized in terms of historical cost.

y) Financial risk management objectives and policies

The Company's main financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's main financial assets include loans, trade and other receivables, as well as cash and short-term deposits that derive directly from its operations. The Company also holds available-for-sale investments and enters into derivative transactions.

The Company is exposed to (i) market risk (which includes interest rate risk and foreign currency risk), (ii) credit risk, and (iii) liquidity risk.

(i) Market risks

- Interest rate risk - This risk results from fluctuations in market interest rates, which affect the value of the Company's contracted debt, lease obligations and derivative financial instruments.

- Foreign currency risk - This risk results from volatility in the foreign currency market, which affects the value of the Company's foreign currency holdings, and its foreign-currency denominated in cash, accounts receivable, related-party transactions, supplier accounts and other accounts payable, debt and derivative financial instruments.

(ii) Credit risk

Credit risk is the risk that the counterparty (customer, supplier or related party) will default on its payment of obligations with the Company.

(iii) Liquidity risk

Liquidity risk is the risk that debt and equity market conditions will impede the Company from having the financial resources it needs for its business activities.

The Company monitors its liquidity risk using liquidity planning tools.

Concentration of risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Company to manage risk concentrations at both the relationship and industry levels.

The credit risk in accounts receivable is mitigated by the fact the Company has a broad customer base that is geographically diverse. The Company continuously monitors its customer accounts and it requires no collateral to guarantee collection of its receivables. Nevertheless, in the event that the Company's collection cycles deteriorate significantly, its financial performance could be adversely affected.

z) Capital management

For the purpose of the Company's capital management, capital includes issued capital, convertible preference shares, share premiums and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximize the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of its financial covenants. To maintain or adjust its capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

22.

In order to achieve this overall objective, the Company's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2019 and 2018.

3. 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 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 C-16 Impairment of financial assets

Mexican FRS C-16 was amended to include the requirement that entities must use the original Effective Interest Rate (EIR) for subsequent measurement of a financial asset to collect principal and interest, that was not derecognized as a result of a renegotiation or modification of the contractual cash flows.

When this occurs, the original EIR should only be adjusted to include the unamortized renegotiation costs.

This improvement is 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 this improvement had no effect on the Company financial statement.

(ii) Mexican FRS C-19 Financial liabilities and Mexican FRS C-20 Financial assets to collect principal and interest

Entities are no longer required to periodically recalculate the EIR for financial liabilities and financial assets to collect principal and interest with variable interest rate when the effects of the periodic recalculation of the contractual cash flows are relatively immaterial. This means that, in these cases, entities will continue to amortize the transaction costs based on the initial EIR, and the effects of interest rate fluctuations will be recognized in profit or loss as they occur.

These improvements are effective for annual periods beginning on or after 1 January 2020, with early adoption permitted. Any accounting changes arising from the adoption of these improvements are to be recognized prospectively.

The adoption of these improvements had no effect on the Company financial statement.

(iii) 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 financial statement.

(iv) 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 financial statements.

24.

(v) 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 derivatives 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.

2) New standards, interpretations and Improvements to Mexican FRS effective as at 1 January 2019

The Company applied Mexican FRS D-5 Leases (MFRS D-5) and Guidance on Mexican FRS 4 Considerations related to the application of Mexican FRS D-5 Leases and IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23) for the first time. The nature and effect of the changes arising from the adoption of these new accounting standards are described below.

A description of the most relevant effects of the standards effective for annual periods beginning on or after January 1, 2019 is, as follows:

Leases

Mexican FRS D-5 supersedes Bulletin D 5 "Leases" ("Bulletin D-5") and the supplementary application of IFRIC 4 "Determining whether an Arrangement contains a Lease" ("IFRIC 4"). MFRS D-5 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under Bulletin D 5.

Lessor accounting under MFRS D-5 is substantially unchanged from Bulletin D 5. Lessors will continue to classify leases using the same classification principle as in Bulletin D 5 and distinguish between two types of leases: operating and finance leases. Therefore, it is not expected impact of MFRS D-5 for leases where the Company is the lessor.

The Company adopted MFRS D-5 using the full retrospective method of adoption, with the date of initial application of January 1, 2019. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying Bulletin D-5 and IFRIC 4 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

Impact on the statement of financial position due to the adoption of MFRS D-5 as of January 1, 2019 (increase):

Assets:	
Right of use assets	<u>\$ 17,268,545</u>
Liabilities:	
Lease liabilities	<u>\$ 17,268,545</u>

There is no material impact on other comprehensive income.

The Company has lease contracts for various items of machinery, vehicles and other equipment. Before the adoption of MFRS D-5, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 2n) Leases for the accounting policy prior to January 1, 2019.

Upon adoption of MFRS D-5, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets (based on its materiality).

Refer to Note 2n) Leases for the accounting policy beginning January 1, 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

- Leases previously accounted for as operating leases

The Company recognized right of use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right of use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right of use assets was recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

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The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application.
- Excluded the initial direct costs from the measurement of the right of use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at January 1, 2019:

- Right of use assets of \$17,268,545 were recognized and presented separately in the statement of financial position.
- Additional lease liabilities of \$17,268,545.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018, as follows:

Assets:

Operating lease commitments as at December 31, 2018	\$ 17,776,558
Weighted average incremental borrowing rate as at January 1, 2019	<u>2.75%</u>
Discounted operating lease commitments as at January 1, 2019	<u>17,268,545</u>
Lease liabilities as at January 1, 2019	<u>\$ 17,268,545</u>

The adoption of Guidance on Mexican FRS 4 had no effect on the Company's financial statements.

Uncertainty over income tax treatments

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment ("the Interpretation") addresses the accounting for income taxes when tax treatments involve uncertainty. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately or combined.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Company.

Improvements to Mexican FRS for 2018

The improvements with 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 1 January 2018, with early adoption permitted for annual periods beginning on or after 1 January 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.

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

(iv) Mexican FRS C-14 Transfer and derecognition of financial assets

Mexican FRS C-14 eliminated the contradiction between paragraphs 42.5.5 and 42.5.6 whereby the subsequent fair value adjustments of transferred assets over which the entity retains some degree of continuing involvement were to be recognized in profit or loss. Mexican FSR C-14 now requires that the subsequent recognition be carried out following the appropriate accounting guidance for each type of asset and the classification of each asset.

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

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

4. Fair value measurement

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities:

- Fair value measurement hierarchy for assets as at December 31, 2019:

As of December 31, 2019, cash is also held at fair value.

- Fair value measurement hierarchy for liabilities as at 31 December 2019:

Date of valuation	Total	Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Liabilities measured at fair value:					
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings:					
Fixed rate borrowing	31 December 2019	\$ 83,088,131	\$ -	\$ -	\$ 83,088,131

There were no transfers between Level 1 and Level 2 during 2019.

- Fair value measurement hierarchy for assets as at December 31, 2018:

As of December 31, 2018, cash is also held at fair value.

- Fair value measurement hierarchy for liabilities as at December 31, 2018:

Date of valuation	Total	Fair value measurement using		
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities measured at fair value:				
Liabilities for which fair values are disclosed:				
Interest-bearing loans and borrowings:				
Fixed rate borrowing	31 December 2018	\$ 109,438,914	\$ -	\$ - 109,438,914

There were no transfers between Level 1 and Level 2 during 2018.

4.a Revenue from contracts with customers

4.a.1 Disaggregated revenue information

For the years ended December 31, 2019 and 2018, all income from the comprehensive income statement, 100% corresponds to the sale of auto parts of goods and has a time of recognition of income at a given time.

4.a.2 Contract balances

	2019	2018
Trade receivables (Note 4.b)	\$ 28,368,475	\$ 34,103,040
	\$ 28,368,475	\$ 34,103,040

4.a.3 Performance obligations from contracts with customers

Information about the Company's performance obligations are summarized below:

Automotive parts

The performance obligation is satisfied upon delivery of the automotive parts, and payment is generally due within 60 to 90 days from delivery. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

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4.b. Trade receivables

Trade receivables

As of December 31, 2019 and 2018, the accounts receivable is described below:

	2019	2018
Receivables from third-party customers	\$ 28,368,475	\$ 34,103,040
	<u>\$ 28,368,475</u>	<u>\$ 34,103,040</u>

Trade receivables are non-interest bearing and are generally on terms of 60 to 90 days.

5. Cash

An analysis of cash and cash equivalents as at 31 December 2019 and 2018 is as follows:

	2019	2018
Cash and cash in banks	\$ 6,731,177	\$ 7,220,589

5.a. Financial assets and financial liabilities

5.a.1 Financial assets

	2019	2018
Debt instruments at amortized cost:		
Trade receivables (Note 4.b)	\$ 28,368,475	\$ 34,103,040
Total financial assets ^(*)	<u>\$ 28,368,475</u>	<u>\$ 34,103,040</u>
Total current	<u>\$ 28,368,475</u>	<u>34,103,040</u>

(*) Financial assets, other than cash and short-term deposits.

Debt instruments at amortized cost

Include trade receivables.

5.a.2 Financial liabilities

	Interest rate	Maturity	2019	2018
Non-current interest-bearing loans and borrowings:				
Loan with related part USD \$ 1,487,000	LIBOR+2.75%	December 31, 2021	\$ 28,141,475	\$ 48,845,426
Loan with related part EUR \$ 2,590,000	2.75%	December 31, 2021	54,946,656	60,593,488
Total non-current interest-bearing loans and borrowings			<u>83,088,131</u>	<u>109,438,914</u>
Total interest-bearing loans and borrowings			<u>\$ 83,088,131</u>	<u>\$ 109,438,914</u>

Other financial liabilities

	2019	2018
Other financial liabilities at amortized cost, other than interest-bearing loans and borrowings:		
Trade and other payables	\$ 7,421,620	\$ 19,667,550
Total other financial liabilities	\$ 7,421,620	\$ 19,667,550
Total current	\$ 7,421,620	\$ 19,667,550

5.a.3 Fair value

The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables.
- The fair values of the Company's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at December 31, 2019 was assessed to be insignificant.

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at December 31, 2019 and 2018 are shown below:

	Valuation technique	Significant unobservable Inputs	Range (weighted average)	Sensitivity of the input to fair value
Loans to related parties	DCF method	Discount for non-performance risk	2019: 0 % 2018: 0%	Not applicable

5.a.4 Financial instruments risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks.

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Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2019 and 2018.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed of the debt constant.

The analyses exclude the impact of movements in market variables on: the carrying values of pension and other post-retirement obligations; provisions; and the non-financial assets and liabilities of foreign operations

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2019 and 2018.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company manages its interest rate risk by having a balanced portfolio of fixed rate loans. The Company's policy is to maintain borrowings at fixed rates of interest. At December 31, 2019 and 2018, after taking into account the effect of interest rate 100% of the Company's borrowings are at a fixed rate of interest.

Interest rate sensitivity

As of December 31, 2019 and 2018, the sensitivity analysis is not presented since all of the company's loans are agreed at fixed interest rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency) and the Company's net investments in foreign exchanges.

The Company hedges its exposure to fluctuations on the translation into USD of its foreign operations by holding net borrowings in foreign currencies.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD and Euro exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax
2019	+5%	\$ (16,869)
	-5%	16,869
2018	+4%	1,028,007
	-4%	(1,028,007)

	Change in Euro rate	Effect on profit before tax
2019	+5%	\$ 2,794,946
	-5%	(2,794,946)
2018	+4%	2,356,897
	-4%	(2,356,897)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating).

The Company evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

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Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy.

The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2019 and 2018 is the carrying amounts as illustrated in Note 5.a.4.

Liquidity risk

The Company monitors its risk of a shortage of funds using a liquidity planning tool.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Company has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

Year ended December 31, 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	\$ 83,088,131	\$ -	\$ -	\$ 83,088,131	\$ -	\$ 83,088,131
Lease liabilities (Note 10)	9,209,519	-	7,647,962	1,561,557	-	9,209,519
Suppliers	7,421,620	7,176,568	245,052	-	-	7,421,620
	<u>\$ 99,719,270</u>	<u>\$ 7,176,568</u>	<u>\$ 7,893,014</u>	<u>\$ 84,649,688</u>	<u>\$ -</u>	<u>\$ 99,719,270</u>

5.a.5 Changes in liabilities arising from financing activities

	January 1, 2019	Cash flows and foreign exchange movements	December 31, 2019
Current interest-bearing loans and borrowings	\$ 109,438,914	\$ (26,350,783)	\$ 83,088,131
Total liabilities from financing activities	<u>\$ 109,438,914</u>	<u>\$ (26,350,783)</u>	<u>\$ 83,088,131</u>

6. Balances and transactions with related parties

The companies mentioned in this note are considered affiliates, as the Company's shareholders are also shareholders in such companies.

a) An analysis of balances due from and to related parties as at December 31, 2019 and 2018 is as follows:

	2019	2018
Receivables:		
Motherson Techno Precision GmbH (holding)	\$ 424,214	\$ -
Payables current:		
Motherson Techno Precision GmbH (holding)	\$ 1,368,214	\$ 5,318,840
MSSL GmbH ((holding))	-	53,566
Montherson Sumi Infotech and Desing Ltd. (affiliate)	-	13,042
Total payable	\$ 1,368,214	\$ 5,385,448
Long- term accounts payable:		
Motherson Techno Precision GmbH (holding) ⁽¹⁾	\$ 83,088,131	\$ 109,438,914

⁽¹⁾ Corresponds to two loans for an amount of Dls. \$1,487,000 in 2019 and Dls. \$2,487,000 in 2018; and Eur. \$2,590,000 in 2019 and Eur. \$2,690,000 in 2018. These loans accrued an interest rate of 2.75% plus three month of rate LIBOR and 2.75%, respectively. These loans expire on December 31, 2021.

As at 31 December 2019 and 2018, balances receivable due from related parties consist of unsecured current accounts that bear no interest and are payable in cash within 30 days.

Accounts receivable due from related parties are all considered collectible. Accordingly, for the years ended December 31, 2019 and 2018, there was no expense related to the uncollectible of accounts receivable due from related parties.

As at December 31, 2019 and 2018, balances payable due to related parties consist of unsecured current accounts that bear no interest and are payable in cash within 60 days.

b) During the years ended December 31, 2019 and 2018, the Company had the following transactions with its related parties:

	2019	2018
Income:		
Sale of fixed assets	\$ 430,865	\$ -
Other income	121,120	-
	\$ 551,985	\$ -

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	2019		2018
Expenses:			
Purchase of machinery and equipment	\$ 3,878,176	\$	8,696,412
Interests	3,765,488		4,153,819
Software	2,958,426		671,694
Travel expenses	535,910		761,265
Maintenance	418,367		642,975
Cutting tools	6,664		1,248,825
Other expenses	6,975,688		8,183,077
Services	-		2,995,870
	<u>\$ 18,538,719</u>	<u>\$</u>	<u>27,353,937</u>

7. Inventories

The main balances at December 31, 2019 and 2018, are shown as follows:

	2019		2018
Raw material	\$ 5,648,613	\$	6,272,605
Work in progress	9,631,501		18,968,561
Finish goods	16,120,424		12,920,040
Spare parts for machines	907,743		972,514
	<u>\$ 32,308,281</u>	<u>\$</u>	<u>39,133,720</u>

An analysis of inventories existence granted on consignment as at December 31, 2019 and 2018 is as follows:

	2019		2018
Inventories received on consignment	\$ 9,875,174	\$	-
	<u>\$ 9,875,174</u>	<u>\$</u>	<u>-</u>

The Company's inventory turnover rate is 103 days.

Variances in the balance of inventories between the years ended as at 31 December 2019 and 2018 are primarily due to:

Raw materials and production in process: In the 2019 financial year, there were decreases in purchases resulting from the decrease in production.

8. Machinery and equipment

At December 31, 2019 and 2018, this item consists of the following:

	2019		2018	
	Investment	Accumulated depreciation	Investment	Accumulated depreciation
Components subject to depreciation				
Machinery and equipment	\$ 66,524,836	\$ (44,908,813)	\$ 60,385,038	\$ (39,432,268)
Leasehold improvements	5,545,438	(1,584,147)	5,545,438	(1,306,875)
Computer equipment	3,022,143	(2,887,344)	3,008,151	(2,688,427)
Office furniture and equipment	813,082	(301,269)	813,082	(220,396)
Tools	4,541,850	(3,061,582)	3,184,099	(2,379,899)
	<u>\$ 80,447,349</u>	<u>\$ (52,743,155)</u>	<u>\$ 72,935,808</u>	<u>\$ (46,027,865)</u>
Components not subject to depreciation				
Construction in process	\$ 536,340		\$ 7,586,978	
Machinery and equipment, net	<u>\$ 28,240,534</u>		<u>\$ 34,494,921</u>	

Depreciation expense for the years ended December 31, 2019 and 2018 was \$10,386,153 and \$9,489,074, respectively, which was recognized in profit and loss as part of cost of sales and administrative expenses.

The Company sold Machinery and equipment in the amount of \$4,081,208 and \$120,350 in 2019 and 2018, respectively, which are presented as part of operating expenses.

Construction projects in progress correspond to new production lines and are expected to be completed in a period not exceeding one year and are mainly made up of machinery and equipment in process. The amount to which construction projects in progress will amount is expected to be completed in a period not exceeding one year. As of December 31, 2019 and 2018, there are no commitments made for this project.

9. Intangible assets

At December 31, 2019 and 2018, this item consists of the following:

	Finite useful life Software
Cost:	
As at January 1, 2018	\$ 841,233
Additions	20,000
As at December 31, 2018	861,233
Additions	-
As at December 31, 2019	<u>\$ 861,233</u>

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	Finite useful life <u>Software</u>
Amortization:	
As at 1 January 2018	\$ (327,635)
Amortization	<u>(128,560)</u>
As at 31 December 2018	(456,195)
Amortization	<u>(129,185)</u>
As at 31 December 2019	<u>\$ (585,380)</u>
Net book value:	
As at 31 December 2019	<u>\$ 275,853</u>
As at 31 December 2018	<u>\$ 405,038</u>

Amortization expense for the years ended 31 December 2019 and 2018 of \$128,560 and \$129,185, respectively, was recognized in profit and loss as part of administrative expenses.

10. Leases

The Company has lease contracts for various items of buildings, vehicles and other equipment used in its operations. Leases of buildings generally have lease terms between 3 and 7 years, while motor vehicles and other equipment generally have lease terms between 2 and 3 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Company to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right of use assets recognized and the movements during the period:

	<u>Buildings</u>	<u>Motor vehicles</u>	<u>Other equipment</u>	<u>Total</u>
As at January 1, 2019	\$ 15,492,536	\$ 1,617,029	\$ 158,980	\$ 17,268,545
Additions	-	-	-	-
Depreciation/Amortization expense	<u>(7,252,727)</u>	<u>(539,010)</u>	<u>(79,490)</u>	<u>(7,871,227)</u>
As at December 31, 2019	<u>\$ 8,239,809</u>	<u>\$ 1,078,019</u>	<u>\$ 79,490</u>	<u>\$ 9,397,318</u>

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019	2018
As at January 1, 2019	\$ 17,268,545	\$ -
Additions	-	-
Accretion of interest	(321,701)	-
Payments	(7,737,325)	-
As at December 31, 2019	<u>\$ 9,209,519</u>	<u>\$ -</u>
Current (Note 5.a.4)	<u>\$ 7,647,962</u>	<u>\$ -</u>
Non-current (Note 5.a.4)	<u>\$ 1,561,557</u>	<u>\$ -</u>

The maturity analysis of lease liabilities is disclosed in Note 5.a.4.

The following are the amounts recognized in profit:

	2019	2018
Depreciation expense of right of use assets	\$ 7,871,227	\$ -
Interest expense on lease liabilities	321,701	-
Total amount recognized in profit	<u>\$ 8,192,928</u>	<u>\$ -</u>

The Company had total cash outflows for leases of \$8,380,727 in 2019 (\$8,258,242 in 2018).

11. Foreign currency position

a) The financial statements as at December 31, 2019 and 2018 include the following on U.S. dollar (Dls.) and Euros (Eur) denominated assets and liabilities:

	2019	2018
Dollars:		
Assets	Dls. 1,839,796	Dls. 2,092,195
Liabilities	(1,821,969)	(3,400,737)
Net asset (liability) position	<u>Dls. 17,827</u>	<u>Dls. (1,308,542)</u>
Euro:		
Liabilities	Eur (2,634,890)	Eur (2,933,764)
Net liability position	<u>Eur (2,634,890)</u>	<u>Eur (2,933,764)</u>

At December 31, 2019 and 2018, the Company held no hedge contracts to protect against foreign exchange risks.

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The exchange rates used to translate the amounts prior to Mexican pesos as of December 31, 2019 and 2018 and May 15, 2020 were:

	2019	2018	May 15, 2020
Dollars (USD)	\$ 18.84	\$ 19.68	\$ 24.27
Euro (EUR)	21.21	20.08	25.89

12. Net employee defined benefit liabilities

The Company has two separate pension plans for its unionized and non-unionized workers, both of which are classified as defined benefit pension plans.

The average remaining working lifetime of the Company's employees is 2 years.

An analysis of the net periodic benefit cost, the net defined benefit liability and the fair value of plan assets associated with the Company's post-employment benefits pension plan, seniority premiums, and termination benefit plan as at and for the years ended 31 December 2019 and 2018 is as follows:

a) Net periodic benefit cost

	2019		
	Retirement benefits	Termination benefits	Total
Analysis of net periodic benefit cost for 2019:			
Current year service cost	\$ 11,392	\$ 253,715	\$ 265,107
Net interest cost on net defined benefit liability (asset)	4,113	73,640	77,753
Actuarial loss (gain) from settlements	860	(544,762)	(543,902)
Net periodic benefit cost for 2019	<u>\$ 16,365</u>	<u>\$ (217,407)</u>	<u>\$ (201,042)</u>

	2018		
	Retirement benefits	Termination benefits	Total
Analysis of net periodic benefit cost for 2018:			
Current year service cost	\$ 2,668	\$ 59,656	\$ 62,324
Labor cost of the current service	9,527	239,866	249,393
Advanced payments and reductions	(8,057)	(206,780)	(214,837)
Net actuarial earning or loss	5,989	(69,940)	(63,951)
Net periodic benefit cost for 2018	<u>\$ 10,127</u>	<u>\$ 22,802</u>	<u>\$ 32,929</u>

b) An analysis of changes in the Company's net defined benefit liability is as follows:

	Retirement benefits	Termination benefits	Total
Net defined benefit liability (asset):			
Net defined benefit liability as at 1 January 2018	\$ 35,571	\$ 795,423	\$ 830,994
Current year service cost	2,668	59,656	62,324
Benefits paid	(8,057)	(206,780)	(214,837)
Other	15,516	169,926	185,442
Net defined benefit liability as at 31 December 2018	45,698	818,225	863,923
Current year service cost	11,392	253,715	265,107
Net interest on net defined benefit liability	4,113	73,640	77,753
Other	860	(544,762)	(543,902)
Net defined benefit liability as at 31 December 2019	\$ 62,063	\$ 600,818	\$ 662,881

c) An analysis of the net defined benefit liability is as follows:

	2019		
	Retirement benefits	Termination benefits	Total
Provisions for:			
Vested benefit obligation	\$ 62,063	\$ 600,818	\$ 662,881
Net defined benefit liability	\$ 62,063	\$ 600,818	\$ 662,881

	2018		
	Retirement benefits	Termination benefits	Total
Provisions for:			
Vested benefit obligation	\$ 45,698	\$ 818,225	\$ 863,923
Net defined benefit liability	\$ 45,698	\$ 818,225	\$ 863,923

d) The key assumptions used in the actuarial study, expressed in absolute terms, were as follows:

	2019	2018
Financial assumptions:		
Discount rate	8.00%	9.00%
Expected salary increase rate	5.00%	4.00%
Inflation rate	4.00%	4.00%
Biometric assumptions:		
Mortality rate	EMSSA 2009	EMSSA 2009
Disability in active employees	IMSS - 97	IMSS-97

42.

13. Short-term employee benefits

a) Short-term employee benefits

As at 31 December 2019 and 2018, the Company has recognized accrued liabilities for short-term employee benefits. An analysis is as follows:

	2019	2018
Employee profit sharing payable	\$ 6,213,481	\$ 6,347,145
	<u>\$ 6,213,481</u>	<u>\$ 6,347,145</u>

b) Employee Profit Sharing (EPS)

An analysis of employee profit sharing for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Current employee profit sharing	\$ 6,123,997	\$ 6,347,145
Deferred employee profit sharing	(2,132,751)	(1,078,169)
Total Employee Profit Sharing	<u>\$ 3,991,246</u>	<u>\$ 5,268,976</u>

c) Deferred Employee Profit Sharing (DEPS)

An analysis of the Company's Deferred Employee Profit Sharing (DEPS) assets (liabilities) as at 31 December 2019 and 2018 is as follows:

	2019	2018
Deferred EPS assets		
Provisions	\$ 64,605,966	\$ 54,793,112
Retirement benefits and termination benefits	351,327	406,044
Machinery and equipment	28,171,007	17,312,958
Lease liability	9,209,519	
	<u>\$ 102,337,819</u>	<u>\$ 72,512,114</u>
Deferred EPS liabilities		
Intangible asset	(79,047)	(55,173)
Asset use rights	(9,397,318)	-
Others	(292,820)	(1,215,821)
	<u>(9,769,185)</u>	<u>(1,270,994)</u>
	92,568,634	71,241,120
EPS rate	10%	10%
Deferred employee profit sharing liability, net	<u>\$ 9,256,863</u>	<u>\$ 7,124,112</u>

Based on financial and tax projections prepared by Company management, the Company has determined that its net deferred employee profit sharing asset

Current and deferred employee profit sharing are presented as part of operating costs in the statement of comprehensive income.

14. Equity

a) The capital stock at December 31, 2017 is composed as follows:

Shares ^(*)	Description	Amount
50,000	Series "A" fix part without right to withdrawal	\$ 50,000
50,000	Subscribed capital stock	\$ 50,000

(*) Ordinary nominative shares with para value of \$1 each, totally subscribed and paid in.

b) In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. At December 31, 2019, legal reserve has not been created.

c) Earnings distributed in excess of the Net Reinvested Taxed Profits Account (CUFINRE by its acronym in Spanish) and Net Taxed Profits Account (CUFIN by its acronym in Spanish) balances will be subject to the payment of corporate income tax at the statutory rate at that time. The payment of this tax may be credited against the Company's current income tax.

Dividends paid to individuals and foreign corporations from earnings generated as of January 1st, 2014 shall be subject to an additional 10% withholding tax.

d) Going concern

For the years ended December 31, 2019 and 2018, the Company obtained a profit of \$23,927,780 and \$2,796,428, respectively, and at December 31, 2019 and 2018 had a deficit in its total equity of \$31,286,382 and \$55,214,162, respectively. This is a legal cause of dissolution, which any interested party may request to be declared by the courts. However, the main shareholder has expressed its intention to support the company financially so as to allow it to continue in operation as a going concern. As mentioned in Note 1, the Company starts operations in April 2013 and commences productive activities in 2014; therefore, the accumulated losses were caused by pre-operating expenses incurred for the company to be available for work as a going concern. Currently the Company, continued working in order to acquire more clients and orders for sales. In addition, the Company's shareholders have manifested the support and financing its operations.

15. Income tax

On October 30, 2019, the Mexican Congress approved the 2020 Tax Reform applicable for the whole country, which became effective on 1 January 2020. However, these facts and circumstances may change in the future, particularly in response to the specific rules and interpretations that will be issued by the tax authority to address the application of the provisions of the 2020 Tax Reform, and the Company will therefore continue assessing the effects of the changes to the law in the coming years.

44.

a) Income tax

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

Income tax for the year is calculated by applying the statutory income tax rate to the Company's taxable income for the year.

The MITL establishes 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.

b) Employee Profit Sharing (EPS)

The MITL establishes that entities are to calculate their EPS 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 MITL.

c) An analysis of income tax recognized in profit and loss for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Current income tax	\$ 16,927,025	\$ 17,553,365
Deferred income tax	(5,717,645)	(3,053,364)
Total income tax	<u>\$ 11,209,380</u>	<u>\$ 14,500,001</u>

An analysis of deferred taxes shown in the statement of financial position is as follows:

	2019	2018
Deferred tax assets:		
Provisions	\$ 64,605,964	\$ 54,793,112
Current employee profit sharing	6,213,481	6,349,424
Retirement benefits and termination benefits	351,327	406,044
Machinery and equipment	28,171,007	17,312,958
Lease liability	9,209,519	-
	<u>108,551,298</u>	<u>78,861,538</u>
Deferred tax liabilities:		
Deferred employee profit sharing	(9,256,863)	(7,124,112)
Intangible assets	(79,047)	(55,173)
Asset use rights	(9,397,318)	-
Others	(292,820)	(1,215,821)
	<u>(19,026,048)</u>	<u>(8,395,106)</u>
	89,525,250	70,466,432
Income tax rate	30%	30%
Deferred tax liability, net	<u>\$ 26,857,575</u>	<u>\$ 21,139,930</u>

d) A reconciliation of the statutory income tax rate to the effective income tax rate recognized by the Company for financial reporting purposes is as follows:

	2019	2018
Income before income taxes	\$ 35,137,160	\$ 17,296,429
Income tax legal rate (30%)	30%	30%
Income tax	10,541,148	5,188,929
Plus (less) income tax effect of permanent items:		
Not deductible expenses	4,794,186	9,196,445
Income tax for inflation	(664,410)	(277,398)
Others	(3,461,544)	392,025
Total income tax	\$ 11,209,380	\$ 14,500,001
Effective income tax rate	32%	84%

e) Tax balances

As at 31 December 2019, the Company has the following tax balances:

	Amount
Restated Contributed Capital Account (CUCA)	\$ 66,071
Net Taxed Profits Account (CUFIN)	9,127,076

16.a. Analysis of cost and expenses

An analysis of the Company's cost and expenses recognized in the statement of income as at December 31, 2019 and 2018 is as follows:

	2019	2018
Changes in inventories of finished goods and products in process	\$ 80,291,449	\$ 89,477,099
Wages and salaries	23,953,013	27,274,326
Depreciations and amortization	18,386,565	17,255,656
Freight and maneuvers	7,329,316	10,061,532
Maintenance and repairment	2,745,432	4,714,985
Tooling	2,283,244	2,788,642
Professional schedules	1,560,575	1,827,580
Travel expenses	1,680,822	2,626,396
Electricity	2,473,397	2,340,362
Outsourced services	9,143,974	10,217,227
Deferred Employee Profit Sharing (DESPS) (Note 13)	(2,132,751)	(1,078,169)
Employees' Statutory Profit Sharing (ESPS) (Note 13)	6,123,997	6,347,145
Consumables	791,353	861,877
Non-deductible	290,123	778,746
Security services	621,816	801,764
Telephone	252,284	460,148
Employees' benefits Net periodic (income) cost (Note 12)	(201,042)	32,929
Other	2,786,257	2,895,216
	\$ 158,379,824	\$ 179,683,461

46.

16.b. Analysis of net financing cost

An analysis of the Company's net financing cost recognized in the statement of income as at December 31, 2019 and 2018 is as follows:

	2019	2018
Interest income	\$ 7,048	\$ 13,863
Interest expense	(3,765,488)	(4,153,818)
Interest on lease liabilities	(321,701)	-
Foreign exchange gain, net	2,317,968	1,500,441
	<u>\$ (1,762,173)</u>	<u>\$ (2,639,514)</u>

17. Contingencies and commitments

I. Contingencies

a) In accordance with the Federal Tax Code, the Company's taxes are open to review by the tax authorities for a period of five years and the tax authorities may determine tax differences as a result of this review. Under certain circumstances, this term may be extended to ten years.

b) Enacted changes made to the Mexican Federal Labor Law that came into effect on December 1, 2012, could have an effect on the Company's financial position. The effects of these changes may vary from a disclosure in the financial statements to the recognition of an additional liability for employee profit sharing or other liabilities related to employee benefits. At December 31, 2019, the Company has evaluated what effects the changes in the labor law may have on its financial information and has concluded that they have had no effect at December 31, 2019. However, this situation may change in the future and so the Company will continue assessing the effects of the changes to the law in the years to come.

c) In accordance with the Mexican Income Tax Law, companies that carry out transactions with related parties, either domestic or foreign, are subject to certain tax limitations and obligations with respect to the determination of the prices charged, since such prices should be similar to the prices that would have been used with or between independent parties in comparable transactions.

Should the authorities review and reject the Company's intercompany pricing in comparable transactions, they may demand payment of the omitted taxes, plus the respective inflationary restatement and surcharges, as well as fines for amounts of up to 100% of the omitted taxes.

II. Commitments

As of December 31, 2019, the Company has the following commitments:

a) Loan agreements with related parties (See Note 6).

b) Lease agreements for the building where its offices and warehouse are located (see Note 10).

18. Subsequent events

On December 31, 2019, China alerted the World Health Organization (WHO) of a new virus (Covid-19 or Coronavirus). On January 30, 2020, the WHO International Health Regulations Emergency Committee declared the outbreak a "Public Health Emergency of International Concern". With the recent and rapid development of the coronavirus outbreak, many countries have required entities to limit or suspend commercial operations and have implemented travel restrictions and quarantine measures. These measures and policies have significantly disrupted (or are expected to disturb) the activities of many entities. As the outbreak continues to progress and evolve, it is challenging currently to predict the extent and duration of its commercial and economic impact. Consequently, these circumstances can present challenges to entities when preparing their financial information.

The administration of the company at the date of issuance of the financial statements is in the evaluation of the economic and operational impact with its business partners.



Martha Butron
Operations Manager