

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

Financial statements

Years ended December 31, 2022 and 2021
with report of independent auditors

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

Financial statements

At December 31, 2022 and 2021

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INDEPENDENT AUDITORS REPORT

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

Qualified opinion

We have audited the accompanying financial statements of Alphabet de México, S.A. de C.V. ("the Company") which comprise the statement of financial position as at December 31, 2022, and the statement of income, statement of changes in stockholders' equity and statement of cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the issues described in the section "Foundations for qualified opinion", the accompanying financial statements present fairly, in all material respects, the financial position of Alphabet de México, S.A. de C.V. as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards ("MFRS").

Foundations for qualified opinion

1. As discussed in Note 1b) to the accompanying financial statements, for the years ended December 31, 2022 and 2021, the Company did not recognize the cumulative effects of inflation as required by Mexican Financial Reporting Standard (MFRS B-10 "Effects of inflation") through December 31, 2007. Nevertheless, management determined that it was not practical to calculate the inflation effects for each account of the financial statements as at December 31, 2022 and 2021. The lack of recognition of the effects inflation is considered a material deviation for the accompanying financial statements.
2. As discussed in Note 1n) to the accompanying financial statements, the Company did not recognize deferred taxes as at December 31, 2022 and 2021, as required by Mexican Financial Reporting Standard (Mexican FRS) D-4 Income tax. In accordance with Mexican FRS D-4, deferred taxes should be recognized on all temporary differences between the financial reporting and tax values of assets and liabilities at the reporting date. Nevertheless, management determined that it was not practical to calculate the Company's deferred taxes as at December 31, 2022 and 2021. The lack of recognition of deferred taxes is considered a material deviation for the accompanying financial statements.

3. As discussed in Note 1k) to the accompanying financial statements, the Company did not recognize deferred employee profit sharing as at December 31, 2022 and 2021, as required by Mexican Financial Reporting Standard D-3 Employee benefits, since management determined that it was not practical to calculate the Company's deferred employee profit sharing as at December 31, 2022 and 2021. The lack of recognition of deferred EPS is considered a material deviation for the accompanying financial statements.

4. As discussed in Note 1j) to the accompanying financial statements, the Company did not record a provision for its obligation related to termination benefits as at December 31, 2022 and 2021, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 Employee benefits in the amount of \$74,838,604 y \$71,384,272, respectively. The lack of recognition of such liability is considered a material deviation for the accompanying financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



C.P.A. Norberto Eugenio Treviño Martínez

San Pedro Garza García, N.L., México.
May 15, 2023.

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

Statements of financial position

(Amounts in Mexican pesos)

	December 31,	
	2022	2021
Assets		
Current assets:		
Cash	\$ 2,014,249	\$ 6,701,971
Other accounts receivable (Note 2)	19,023,887	9,292,228
Related parties (Note 3)	52,566,202	71,251,907
Prepaid expenses	5,635,332	4,442,744
Total current assets	79,239,670	91,688,850
Noncurrent assets:		
Property, plant and equipment, net (Note 4)	55,838,314	31,777,740
Right of use assets, net (Note 10)	30,358,601	38,065,374
Other assets, net	2,255,350	2,113,935
Total noncurrent assets	88,452,265	71,957,049
Total assets	\$ 167,691,935	\$ 163,645,899
Liabilities and stockholder's equity		
Current liabilities:		
Suppliers	\$ 6,957,233	\$ 5,029,094
Direct benefits to employees (Note 6)	39,673,040	28,886,028
Accrued expenses and other taxes	37,642,116	26,758,179
Lease liabilities (Note 10)	8,560,759	7,936,582
Taxes payable (Note 9)	2,503,015	8,915,684
Total current liabilities	95,338,253	77,525,567
Long-term liabilities:		
Lease liabilities (Note 10)	26,383,425	34,944,184
Retirement benefits of seniority premium (Note 7)	18,701,817	18,110,546
Total long-term liabilities	45,085,242	53,054,730
Total liabilities	140,423,495	130,580,297
Stockholder's equity: (Note 8)		
Capital stock	1,810,328	1,810,328
Retained earnings	25,458,112	31,255,274
Total stockholder's equity	27,268,440	33,065,602
Total liabilities and stockholder's equity	\$ 167,691,935	\$ 163,645,899

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


Martha Elena Montoya
Controller

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

Statements of income

(Amounts in Mexican pesos)

	For the years ended December 31,	
	2022	2021
Revenues:		
Maquila revenues (Nota 3)	\$ 767,528,772	\$ 628,111,952
Other income	1,167,404	1,082,694
	<u>768,696,176</u>	<u>629,194,646</u>
Operation expense and cost:		
Expense of maquila	(722,231,625)	(587,102,229)
Operating income	<u>46,464,551</u>	<u>42,092,417</u>
Comprehensive financing cost:		
Interest expense	(2,281,337)	(2,807,571)
Exchange (loss), net	(652,728)	(1,564,218)
	<u>(1,628,608)</u>	<u>(4,371,789)</u>
Income before taxes on profits	44,835,943	37,720,628
Income tax (Note 9)	(19,377,830)	(16,654,493)
Net income	<u>\$ (25,458,112)</u>	<u>\$ (21,066,135)</u>

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


Martha Elena Montoya
Controller

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

Statements of changes in stockholder's equity

For the years ended December 31, 2022 and 2021

(Amounts in Mexican pesos)

	Capital stock	Retained earnings	Total stockholder's equity
Balance as of December 31, 2020	\$ 1,810,328	\$ 36,552,638	\$ 38,362,966
Dividends paid	-	(26,363,499)	(26,363,499)
Net income	-	21,066,135	21,066,135
Balance as of December 31, 2021	1,819,328	31,255,274	33,065,602
Dividends paid		31,255,274	31,255,274
Net income		25,458,112	25,458,112
Balance as of December 31, 2022	\$ 1,810,328	\$ 25,458,112	\$ 27,268,440

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



Martha Elena Montoya
Controller

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

Statements of cash flows

(Amounts in Mexican pesos)

	For the years ended December 31,	
	2022	2021
Operating activities		
Income before taxes on profits	\$ 44,835,943	\$ 37,720,629
Items in results of operations not affecting cash:		
Labor obligation	591,271	605,888
Depreciation	2,950,999	3,194,389
Interest in favor	2,281,337	(2,807,573)
	<u>50,659,549</u>	<u>38,713,333</u>
Changes in operating assets and liabilities:		
Accounts receivable	(9,731,659)	(3,906,976)
Related parties	18,685,705	(23,571,437)
Prepaid expenses	(1,192,588)	770,291
Other assets, net	(141,414)	-
Suppliers	1,928,139	1,720,350
Direct employees benefits	10,787,013	9,142,104
Accrued expenses and other taxes	10,883,937	5,511,319
Labor obligation	-	(367,963)
Taxes payable	(25,788,411)	(8,029,189)
Net cash provided by operating activities	<u>56,090,271</u>	<u>19,981,832</u>
Investing activities		
Acquisition of property, machinery and equipment	(27,011,573)	(1,823,942)
Right of use assets, net	(229,809)	1,834,559
Net cash provided by investing activities	<u>(27,241,382)</u>	<u>10,617</u>
Financing activities		
Interest in favor	(2,281,337)	2,807,573
Dividends paid	(31,255,274)	(26,363,499)
Net cash used in financing activities	<u>(33,536,611)</u>	<u>(23,555,926)</u>
Net increase in cash	(4,687,722)	(3,563,477)
Cash at beginning of year	6,701,971	10,265,448
Cash at end of year	<u>\$ 2,014,249</u>	<u>\$ 6,701,971</u>

The accompanying notes are an integral part of these financial statements


Martha Elena Montoya
Controller

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

Notes to the financial statements

At December 31, 2022 and 2021

(Amounts in Mexican pesos, unless otherwise indicated)

1. Nature of operations and summary of significant accounting policies

Alphabet de México, S.A. de C.V. (The "Company") started July 1, 2014 a subsidiary of MSSL (GB) Limited, (MSSL) it was founded in 1981, in accordance with Mexican law under the protection of the maquila program established by the Mexican Government. Its main activity is to assemble harnesses for the automotive industry under a maquila agreement with MSSL Wiring System, Inc. (a related party).

The Company's operating period and fiscal year is from 1 January through 31 December

On May 15, 2023, the financial statements and these notes were authorized by the Comptroller, Martha Elena Montoya, for their issue and subsequent approval by the Company's Board of Directors and the Stockholders who have the authority to modify the financial statements. Information on subsequent events covers the period from April 30, 2022 through the above-mentioned issue date of the financial statements.

Summary of significant accounting policies

a) Compliance with Mexican Financial Reporting Standards

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

b) Basis of preparation

The financial statements as of December 31, 2022 and 2021 have been prepared on a historical-cost basis. The Company did not determine the effects of inflation on its financial information through December 31, 2007 as required under Mexican FRS. Nevertheless, management determined that it was not practical to calculate the inflation effects for each account of the financial statements as at 31 December 2022 and 2021.

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, 2022 and 2021, Mexico's cumulative inflation rate for the three prior years was 26% (annual average of 8%), which represents the necessary condition for considering Mexico as having a non-inflationary economic environment.

As determined based on the National Consumer Price Index (NCPI) published by the National Statistical and Geographical Information Agency (INEGI), Mexico's annual inflation rate for 2022 and 2021 is as follows

	Cumulative inflation for 2021	Cumulative inflation for 2022	Inflation for the year
	(Sum of inflation rates for 2019, 2020 and 2021)	(Sum of inflation rates for 2020, 2021 and 2022)	(Inflation rate for 2022)
Inflation rates	13.34%	18.33%	7.82%

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.

c) Recognition of revenues

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

d) Use of estimates

The preparation of the Company's financial statements in accordance with Mexican FRS requires the use of estimates and assumptions in certain areas. The Company 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.

The key assumptions used at December 31, 2022 and 2021, in determining estimates that involve uncertainty and may have a significant risk of causing adjustments relative importance on the carrying amount of assets and liabilities during the next financial year, are the following:

Impairment in the value of non-financial assets

Impairment exists when the carrying amount of an asset or 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. 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.

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

- Property, plant and equipment in Note 4.

Defined employee benefits (post-employment)

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 2022 and 2021, the Company has used a government bond [corporate bond] rate to discount its long-term defined employee benefits, since management believes that this rate best reflects the present value of the Company's expected future benefit payments based on the characteristics of plan participants and the estimated future payment dates of the benefits.

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

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

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

e) Cash

Consist mainly of bank deposits in checking accounts.

f) Prepaid expenses

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

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

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

g) Property, plant and equipment, net

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

The cost of acquiring property, plant 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.

Depreciation of property, plant and equipment is calculated on the asset's acquisition cost less the residual value of property, plant 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:

	Estimated useful life
Buildings	20 to 40 years
Machinery and equipment	8 to 10 years
Air conditioning equipment	8 years

An item of property, plant 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 property, plant 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 the years ended as at 31 December 2022 and 2021, there were no indicators of impairment

h) Other assets

Are composed mainly of security deposits delivered to Federal Electricity Commission (CFE, Spanish acronym).

i) Provisions, contingents and commitments

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

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

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

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

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

The premium costs seniority and termination benefits are recognized annually based on calculations by independent actuaries using the projected unit credit method using financial assumptions in nominal terms. The latest actuarial valuation was carried out in December 2021.

The Company did not record a provision for its obligation related to termination benefits as at December 31, 2022 and 2021, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 Employee benefits in the amount of \$74,838,604 and \$71,384,272, respectively. The lack of recognition of such liability is considered a material deviation for the accompanying financial statements.

k) Employee Profit Sharing (EPS)

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

Deferred employee profit sharing is determined using the asset and liability method. Under this method, deferred employee profit sharing is 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.

The Company did not recognize deferred employee profit sharing as at December 31, 2022 and 2021, as required by Mexican FRS D-3 Employee benefits, since management determined that it was not practical to calculate the Company's deferred employee profit sharing as at December 31, 2022 and 2021.

l) Foreign exchange

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

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

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

m) Comprehensive income

The comprehensive income is the sum of the net profit or loss, Other Comprehensive Income (OCI) and participation in the OCI of other entities. For the years ended December 31, 2022 and 2021, comprehensive income equals net income for the year.

n) Income tax

Current income tax

Current income tax is recognized as a current liability, net of prepayments made during the year. Current income tax is recognized as an expense in profit or loss, 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 income tax rate as of the date of the statement of financial position, or the enacted rate at the date of the statement of financial position that will be in effect when the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

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

The Company did not recognize deferred taxes as at December 31, 2022 and 2021, as required by Mexican FRS D-4, Income tax, since management determined that it was not practical to calculate the Company's deferred taxes as at December 31, 2022 and 2021.

o) Statement of comprehensive income presentation

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

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

p) Concentration of risk

As at December 31, 2022 and 2021, the Company provides its maquila services exclusively to its related party MSSL Wiring System, Inc. under a maquila program. Accordingly, in the event that the related party no longer requires these services, the Company's operating results could be adversely affected.

q) New accounting pronouncements

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

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

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

Mexican Financial Reporting Standard (Mexican FRS) A-1 Conceptual Framework in Mexican FRS (effective for annual periods beginning on or after 1 January 2023)

Mexican FRS A-1 Conceptual Framework in Mexican FRS was issued by the Mexican Financial Reporting Standards Board (Consejo Mexicano de Normas de Información Financiera, A.C. or CINIF) in November 2021 to define and set out the Conceptual Framework that supports each specific Financial Reporting Standard and address concerns arising from the accounting recognition of transactions and any other events that have an economic impact on an entity.

New Mexican FRS A-1 supersedes the eight individual standards contained in the previous Mexican FRS Series A Conceptual Framework for the purpose of achieving maximum convergence to International Financial Reporting Standards (IFRS), under which, unlike Mexican FRS, the Conceptual Framework is not a standard.

In addition, the Conceptual Framework has been revised to be consistent with the specific standards issued in recent years.

In order for this Conceptual Framework to be more practical and functional, the new Mexican FRS A-1 is divided into ten chapters. Some of the main changes, compared to the previous Conceptual Framework, include adjustments to the definition of an asset and liability, the restructuring of the hierarchy and description of the qualitative characteristics of financial statements, changes to valuation concepts, inclusion of requirements related to effective communication of the financial statements, and addition of compensation and grouping criteria of items in presentation and disclosure standards, and the inclusion of CINIF Technical Reports as an integral part of Mexican FRS, among others.

New Mexican FRS A-1 is effective for annual periods beginning on or after 1 January 2023, with early application permitted.

The adoption of new Mexican FRS A-1 had no effect on the Company's financial statements.

Mexican Financial Reporting Standard (Mexican FRS) C-17 Investment Property (effective for annual periods beginning on or after 1 January 2021)

Mexican FRS C-17 Investment Property was issued by the CINIF in December 2019 and addresses the accounting for investment properties.

Mexican FRS C-17 eliminates the supplementary application of IAS 40 Investment Property and supersedes Circular 55 Supplementary application of IAS 40 as of the date of adoption of the new standard.

The most important changes contained in the new Mexican FRS C-17 compared to Circular 55 are: i) entities may now choose to subsequently measure investment properties at either cost or fair value; and ii) the definition of investment property has been modified for considering these assets held for capital appreciation in the medium-term through its sell. As a result of this change, assets held to earn rentals by a lease commitment are outside the scope of Mexican FRS C-17.

Mexican FRS C-17 is effective for annual periods beginning on or after 1 January 2021, with early application permitted.

The adoption of Mexican FRS C-17 had no effect on the Company's financial statements.

Improvements to Mexican FRS for 2023

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

(i) Mexican FRS B-11 Disposal of long-lived assets and discontinued operations and Mexican FRS C-11 Equity

These standards include a number of clarifications regarding the valuation and disclosure related to the delivery of long-lived assets to settle a liability or a capital reimbursement to the owners of an entity, since any difference between the carrying amount of the assets delivered to the owners and the amount of the dividend or capital reimbursement paid must be recognized in retained earnings as a shareholder transaction and must be accompanied by the relevant disclosure as of the date when the asset or disposal group has been classified as held for distribution to owners, as well as at the liquidation date.

Several amendments were made to Mexican FRS C-11 to make sure there is consistency between both accounting standards.

This improvement to Mexican FRS B-11 and C-11 represents a deviation from IFRIC 17 Distributions of Non-cash Assets to Owners since the valuation difference described above is recognized in profit or loss and the dividends payable are recognized at the fair value of the asset delivered.

This improvement is effective for annual periods beginning on or after 1 January 2023, with early adoption permitted. Any accounting changes arising from the adoption of this improvement should be recognized in accordance with Mexican FRS B-1 Accounting Changes and Error Corrections.

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

(ii) Mexican FRS B-15 Foreign currency translation

This standard provides guidance on the practical expedient for foreign currency translation exemptions when the entity's recording currency is the same as its presentation currency but different from its functional currency, in order to ensure a clear understanding and application of the practical expedient.

The practical expedient may be applied when financial statements are prepared exclusively for legal and tax purposes by entities that do not have subsidiaries or a holding company, or by subsidiaries, associates or joint ventures, and, in both cases, when they do not have users who are required to prepare annual financial statements that take into account the effects of translation into the entity's functional currency.

These improvements are effective for annual periods beginning on or after 1 January 2023 with early adoption permitted. Any accounting changes arising from the adoption of this improvement must be recognized in accordance with Mexican FRS B-1 Accounting Changes and Error Corrections

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

Improvements to Mexican FRS for 2021

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

(i) Mexican FRS B-1 Accounting changes and error corrections

Entities are now required to recognize prospectively the initial effect of an accounting change or error correction when it is impracticable to determine such initial effect using the retrospective approach.

This improvement is effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020. Any accounting changes arising from the adoption of this improvement are to be recognized prospectively.

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

(ii) Mexican FRS D-5 Leases

a) Lease recognition exemption disclosures

Mexican FRS D-5 clarifies certain issues surrounding the expense related to short-term leases and leases of low-value assets, for which no right-of-use asset is recognized.

b) Sale-leaseback transactions

Mexican FRS D-5 explains and clarifies certain issues surrounding the determination of the lease liability arising in a sale and leaseback transaction. Consequently, the illustrative example of a sale and leaseback transaction provided in Mexican FRS D-5 has been modified.

These improvements are effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020.

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

- 2) New Standards, Interpretations and Improvements to Mexican FRS effective as at 1 January 2020

Guidance on Mexican FRS 5 Alternatives for transitioning to Mexican FRS D-5 Leases

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

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

Guidance on Mexican FRS 6 Discount rate, lease term and certain disclosures under Mexican FRS D-5 Leases

Guidance on Mexican FRS 6 Discount rate, lease term and certain disclosures under Mexican FRS D-5 Leases provides guidelines related to determination of the discount rate and lease term and certain disclosures arising from application of Mexican FRS D-5.

The adoption of Guidance on Mexican FRS 6 had no effect on the Company's financial statements.

2. Other accounts receivable

At December 31, 2022 and 2021, accounts receivable is as follows:

	2022	2021
Accounts receivables	\$ 13,860	\$ 13,860
Recoverable taxes	19,010,027	9,278,368
	<u>\$ 19,023,887</u>	<u>\$ 9,292,228</u>

3. Related parties

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

Balances with related parties at December 31, 2022 and 2021 parts are as follows:

	2022	2021
Receivable:		
MSSL Wiring System, Inc. ^(a)	<u>\$ 52,566,202</u>	<u>\$ 71,251,907</u>

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

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

	2022	2021
Revenue:		
Revenue for maquilas service	\$ 767,528,772	\$ 628,111,952

4. Property, plant and equipment, net

At December 31, 2022 and 2021, the balances of property, plant and equipment are integrated as follows:

	2022		2021	
	Inversión	Depreciación acumulada	Inversión	Depreciación acumulada
Land	\$ 1,560,977	\$ -	\$ 1,560,977	\$ -
Building	70,583,524	28,471,225	52,345,693	26,815,960
Machinery and equipment	30,216,934	24,294,352	27,548,578	23,094,092
Furniture and fixtures	4,357,024	4,276,728	4,357,024	4,259,564
Computer equipment	3,249,511	3,192,738	3,249,511	3,114,428
Construction in progress	6,105,385			
	<u>116,073,356</u>	<u>\$ 60,235,042</u>	<u>89,061,783</u>	<u>\$ 57,284,043</u>
Property, plant and equipment, net	<u>\$ 55,838,314</u>		<u>\$ 31,777,740</u>	

Depreciation for the year 2022 and 2021 that was recognized in the income statement amounted to \$2,950,998 y \$3,194,389, respectively.

5. Transaction in foreign currency

- a) At December 31, 2022 and 2021, the Company has assets and liabilities denominated in US dollars as follows:

	2022	2021
Dollars:		
Monetary assets	US\$ 29,879	US\$ 21,132
Monetary liabilities	(121,992)	(151,129)
Net monetary liability position	<u>US\$ (92,113)</u>	<u>US\$ (129,997)</u>

- b) The exchange rates used to convert amounts before national currency were \$19.36 and \$20.58 for the US dollar as of December 31, 2022 and 2021, respectively. May 15, 2023, date of the financial statements, the exchange rate is \$17.63 per dollar.

6. Direct benefits to employee

At December 31, 2022 and 2021, the Company has the following accruals related to direct benefits to employee:

	2022	2021
Holidays and holidays bonus	\$ 27,433,753	\$ 19,100,317
Wages to pay	4,818,918	3,932,492
Employee profit sharing	7,420,369	5,853,219
	<u>\$ 39,673,040</u>	<u>\$ 28,886,028</u>

7. Retirement benefits of seniority premium

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

At December 31, 2022 and 2021, the net cost of the period, defined benefit obligations related to the retirement plan (Seniority premium retirement), are as follows:

a) Net period cost:

	2022	2021
Integration net period cost:		
Labor cost of actual service	\$ 2,188,005	\$ 2,019,229
Net interest of liabilities (assets) net by defined benefit	1,412,257	869,255
Remeasurement of actuarial losses or (gains)	(1,384,581)	-
Plan paid benefits	(1,624,410)	-
Net period cost	<u>\$ 591,271</u>	<u>\$ 2,888,484</u>

b) Defined benefit obligations are shown below:

	2022	2021
Provisions to:		
Obligations for Benefits Acquired (OBA)	\$ 5,447,061	\$ 4,987,025
Obligations for benefits not acquired	13,254,756	13,123,522
Defined benefit obligations, net	<u>\$ 18,701,817</u>	<u>\$ 18,110,546</u>

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

	2022	2021
Discount benefit obligations:		
Projected present value	9.40%	8.16%

8. Stockholders' equity

a) Capital stock at December 31, 2022 and 2021 is represented by 1,810,328 registered shares with a value of \$1.00 each. Variable capital is unlimited. The minimum fixed capital is represented by nominative common and released representative of the fixed portion of capital without right of withdrawal. Both the fixed and the variable portion of capital are represented by shares of Series "B" with nominal value of one peso each and are fully subscribed by foreign investors, such shares will be freely subscribed.

b) According to the general law of commercial companies, the Company must separate from the net income of each year at least 5% to increase the legal reserve until it reaches 20% of the share capital. At December 31, 2022 and 2021, the company has not created the legal reserve.

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

d) At regular shareholders' meetings held on June 13, 2022, the shareholders declared dividends of \$31,255,274 which comes from CUFIN. Such dividends were cash-paid in full on July 18, 2022.

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

9. Income tax

a) Income tax

The Mexican Income Tax Law (MITL) establishes a corporate income tax rate for Mexico of 30% for fiscal years 2022 and 2021.

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

For the years ended at December 31, 2022 and 2021, the Company reported a taxable income of \$64,542,766 and \$55,514,977, respectively, on which correspond income tax of \$19,377,830 and \$16,654,493, respectively.

b) Employee profit sharing (EPS)

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

10. Leases

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

	2022	2021
As at January 1st, 2022 and 2021	\$ 56,866,587	\$ 56,866,587
Accumulated amortization	(26,507,986)	(18,801,213)
As at December 31, 2022 and 2021	<u>\$ 30,358,601</u>	<u>\$ 38,065,374</u>

Leases liabilities

Terms and conditions for the leases as of December 31, 2022 are as follows:

Currency	Maturity	Present value
MXN	2023	<u>\$ 42,880,766</u>

Amortization and interest amounts into the P&L as of December 31 2021 y 2020 were as follows:

	2022	2021
Amount:		
Interest	\$ 2,281,337	\$ 2,807,573
Amortization	8,431,509	8,371,145

11. Contingencies

At December 31, 2021, the company has the following contingencies:

- a) There is a contingent liability derived labor obligation mentioned in Note 1j)
- b) In accordance with current tax legislation, the authorities are entitled to examine the five fiscal years prior to the last statement filed income tax.
- c) According to the Law on Income Tax, companies that conduct transactions with related parties are subject to certain limitations and requirements, as to the determination of the agreed prices, as these must be comparable to those that would be used with arm's-length transactions. In the event that the tax authorities will review prices and reject the certain amounts may require, in addition to the collection of the tax, accessories corresponding (updating and surcharges), and penalties on unpaid taxes, which could become even 100% of the amount of contributions updated. The Company's policy is to conduct a transfer pricing study to evaluate the operations carried out with related parties.
- d) At December 31, 2022 and 2021, and the date of issuance of these financial statements, the Company as maquiladora industry has the following commitments inherent in the IMMEX program, which have been met:

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

- Allocate temporarily imported under IMMEX program authorized purposes goods.
- Foreign return the goods within the period determined under the provisions of the Customs Law or the maquila program. At December 31, 2022 and 2021 the Company had under custody temporarily imported inventory owned by his holding company with an approximate value of MXN \$184,366,833 and \$ 913,360,219 respectively (unaudited amounts).
- At December 31, 2022 and 2021, the Company had under custody temporarily imported assets owned by his holding company with an approximate value of \$60,409,229 and US\$25,202,970 respectively (unaudited amounts).
- Maintain temporarily imported goods at the address registered in the program.
- Request of Secretary of Economy, following proceedings before the Mexican Tax Authorities (SAT), registration of changes in the data given in the request for approval of the maquila program, such as company name, address and federal registration of taxpayers, and suspension of activities.
- Maintain a control of automated inventory with certain minimum information.

- Submit an annual report no later than electronically to the Secretary of Economy and the Mexican Tax Authorities (SAT) respect to total sales and exports for the fiscal year immediately preceding the last business day of the month of May of the following year.
- In addition, returning the materials and inputs imported temporarily, the maquiladora must pay import taxes corresponding to those materials whose country of origin has not signed a bilateral free trade, likewise, you must pay the VAT on imports machinery and equipment, once it is canceled the IMMEX program and these assets remain in Mexico.



Martha Elena Montoya
Controller

