

**MSSL WIRINGS JUÁREZ, S.A. DE C.V.**

**Financial statements**

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

**MSSL WIRINGS JUÁREZ, S. A. DE C.V.**

**Financial statements**

As of December 31, 2022 and 2021

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of  
MSSL Wirings Juárez, S. A. de C.V.

### Adverse opinion

We have audited the accompanying financial statements of MSSL Wirings Juárez, S. A. de C.V., which comprise the statement of financial position at December 31, 2022, and the related statement of income, changes in shareholders' equity, and cash flows for the year then ended, as well as a summary of the significant accounting policies and other explanatory information.

In our opinion, due to the importance of the material effects of the matter described in the section "Basis of the adverse opinion" of our report, the aforementioned financial statements do not present fairly the financial situation of MSSL Wirings Juárez, S.A. de C.V., as of December 31, 2022, as well as its results and cash flows, for the year ended on that date, in accordance with the Mexican Financial Reporting Standards (MFRS).

### Basis for adverse opinion

As discussed in Note 1k) 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, in accordance with Mexican FRS D-3 Employee benefits in the amount. 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 Code of Ethics for Professional Accountants (including International Standards of Independence)" ("IESBA Code of Ethics") 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 adverse 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:

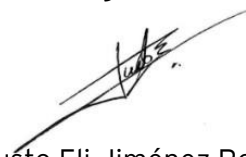
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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.C. Justo Eli Jiménez Rodríguez

Ciudad Juárez, Mexico,  
July 26, 2023

**MSSL WIRINGS JUÁREZ, S.A. DE C.V.**

**Statements of financial position**

(In Mexican pesos)

	December 31,	
	2022	2021
<b>Assets</b>		
Current assets:		
Cash	Ps. 919,817	Ps. 2,337,343
Accounts receivable:		
Related parties (Note 2)	521,035	-
Recoverable taxes (Note 3)	138,088	192,723
Prepaid expenses	381,461	397,303
	<u>1,040,584</u>	<u>590,026</u>
Total current assets	<u>1,960,401</u>	<u>2,927,369</u>
Non-current assets:		
Leasehold improvements, net (Note 4)	449,430	280,584
Deferred income tax (Note 10c)	366,472	232,003
Deferred profit sharing (Note 7c)	108,251	58,820
Guarantee deposits	39,578	43,478
Total non-current assets	<u>963,731</u>	<u>614,885</u>
Total assets	<u>Ps. 2,924,132</u>	<u>Ps. 3,542,254</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payables	Ps. 144,698	Ps. 140,371
Related parties (Note 2)	-	372,793
Provisions and accrued liabilities (Note 5)	1,337,549	1,288,834
Short-term direct benefits (Note 7)	552,520	305,187
Income tax	235,693	65,610
Total current liabilities	<u>2,270,460</u>	<u>2,172,795</u>
Labor obligations (Note 8)	<u>161,429</u>	<u>165,871</u>
Total liabilities	<u>2,431,889</u>	<u>2,338,666</u>
Shareholders' equity (Note 9):		
Capital stock	50,000	50,000
Accumulated earnings	442,243	1,153,588
Total shareholders' equity	<u>492,243</u>	<u>1,203,588</u>
Total liabilities and shareholders' equity	<u>Ps. 2,924,132</u>	<u>Ps. 3,542,254</u>

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

**MSSL WIRINGS JUÁREZ, S.A. DE C.V.**

**Statement of income**

(In Mexican pesos)

	For the years ended December 31,	
	2022	2021
Revenues (Note 1c)	Ps. 25,221,364	Ps. 26,490,993
Other income	5,540	4,479
Costs and expenses	24,075,462	25,253,920
Operating income	1,151,442	1,241,552
Financing cost:		
Exchange loss, net	( 7,737)	( 1,974)
	( 7,737)	( 1,974)
Income before taxes	1,143,705	1,239,578
Income tax (Note 10)	701,462	830,981
Net income	Ps. 442,243	Ps. 408,597

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

**MSSL WIRINGS JUÁREZ, S.A. DE C.V.**

**Statements of changes in shareholder's equity**

**For the years ended December 31, 2022 and 2021**

(In Mexican pesos)

	<b>Capital stock</b>	<b>Accumulated earnings</b>	<b>Total</b>
Balances at December 31, 2020	Ps. 50,000	Ps. 1,857,751	Ps. 1,907,751
Dividends paid (Note 9)	-	( 1,112,760)	( 1,112,760)
Net income of the year	-	408,597	408,597
Balances at December 31, 2021	50,000	1,153,588	1,203,588
Dividends paid (Note 9)		( 1,153,588)	( 1,153,588)
Net income of the year		442,243	442,243
Balances at December 31, 2022	Ps. 50,000	Ps. 442,243	Ps. 492,243

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



**MSSL WIRINGS JUÁREZ, S.A. DE C.V.**

**Statement of cash flows**

(In Mexican pesos)

	For the years ended December 31,	
	2022	2021
<b>Operating activities</b>		
Income before taxes	Ps. 1,143,705	Ps. 1,239,578
Items not affecting cash flows:		
Depreciation	73,115	55,899
Net periodic cost	36,757	18,675
Deferred income tax	-	143,062
Deferred profit sharing	( 49,431)	53,173
Profit sharing caused	188,499	-
	<u>1,392,645</u>	<u>1,510,387</u>
Changes in operating assets and liabilities:		
Accounts receivable and other assets	74,377	306,245
Related parties	( 893,828)	1,602,527
Accrued liabilities	( 595,171)	( 1,057,410)
Net cash flows (used in) provided by operating activities	<u>( 21,977)</u>	<u>2,361,749</u>
<b>Investing activities</b>		
Purchase of fixed assets, net	( 241,961)	( 34,950)
Net cash flows used in investing activities	<u>( 241,961)</u>	<u>( 34,950)</u>
<b>Financial activities</b>		
Dividends paid	( 1,153,588)	( 1,112,760)
Net cash flows used in investing activities	<u>( 1,153,588)</u>	<u>( 1,112,760)</u>
(Decrease) increase in cash	( 1,417,526)	1,214,039
Cash at beginning of year	2,337,343	1,123,304
Cash at end of year	<u>Ps. 919,817</u>	<u>Ps. 2,337,343</u>

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

# **MSSL WIRINGS JUÁREZ, S.A. DE C.V.**

## **Notes to financial statements**

Year ended December 31, 2022 and 2021

(In Mexican pesos)

### **1. Description of the business**

MSSL Wirings Juárez, S.A. de C.V. (hereafter, the “MWJ” or the Company) was incorporated under the terms of the Mexican Corporations Act on March 20, 2015, and is a 99.99% owned subsidiary of MSSL (GB) Limited (Holding company).

MWJ is dedicated to render administrative, financing and accounting services to its related party MSSL Wiring System, Inc. (MWS) in the United States. Revenues are carried out through a Maquiladora service agreement, which provides that these services are to be billed based on costs incurred plus a profit margin.

On July 26, 2023, the financial statements and these notes were authorized by Mary Esther Covarrubias, the Chief Financial Officer, for their issue and subsequent approval by the Company's Board of Directors and shareholders, who have the authority to modify the financial statements.

### **Summary of significant accounting policies**

#### **a) Compliance with Mexican Financial Reporting Standards**

Except as mentioned in paragraph 1k), the accompanying financial statements were prepared in conformity with Mexican Financial Reporting Standards (Mexican FRS).

#### **b) Basis of preparation**

The accompanying financial statements have been prepared on an historical-cost basis. The amounts are presented in 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, 2022 and 2021, Mexico's cumulative inflation rate for the three prior years was 12% (annual average of 4%), which represents the necessary condition for considering Mexico as having a non-inflationary economic environment.

2.

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 <small>(% of 2019, 2020 &amp; 2021)</small>	Cumulative inflation for 2022 <small>(% of 2020, 2021 &amp; 2022)</small>	Inflation for the year <small>(% of 2022)</small>
Inflation percentages	13.88%	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.

#### **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 terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as non-current.

**c) Recognition of revenues**

The main activity of the company is the provision of maquila services, based on its contract with its related party MSSL Wiring System, Inc.

The income derived from the contract with MSSL Wiring System, Inc. is recognized at the time that control of the services is transferred to it, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for said services. For the determination of revenues of 2022 and 2021, the company uses a profit factor of 4.45% and 5.12% respectively on the costs and expenses incurred in the maquila process for the fiscal year under review.

**d) Use of estimates**

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

**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.

**Defined benefit plans**

The net cost of defined benefits 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 and 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.

4.

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 December 31, 2022 and 2021, 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 publicly available mortality tables for Mexico as country.

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

Additional information on the assumptions used is provided in Note 8.

#### **e) Cash**

Cash principally consist of bank deposits. Cash and cash equivalents are stated at fair value.

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

#### **f) Other accounts receivable**

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 receivable 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 receivable are presented as part of current assets

Other accounts receivable 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.

### g) Prepaid expenses

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

At the time the goods or services are received, prepaid expenses are either capitalized or charged to the statement of comprehensive income, depending on whether there is certainty that the acquired goods or services will generate future economic benefits.

### h) Leasehold improvements

Leasehold improvements are recognized at acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any. At December 31, 2022 and 2021, there were no constructions in progress to which applies any capitalization of the comprehensive financing cost.

The cost of acquiring leasehold improvements 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. Repair and maintenance costs are expensed as incurred.

Depreciation of leasehold improvements is computed using the straight-line method, based on the historical value and estimated useful lives of the related assets. (See Note 4).

	Estimated useful life
Leasehold improvements	<u>5 years</u>

Fixed assets are derecognized upon disposal or when no future economic benefits are expected from their 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 immediately recorded in the income statement.

The carrying value of leasehold improvements is reviewed whenever there are indicators of impairment in the value of such assets. When the recoverable amount of an asset, which is the greater of the asset's 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 year ended December 31, 2022 and 2021, there were no indicators of impairment in the Company's fixed assets.

6.

**i) 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.

**(1) Short-term leases and low-value asset leases**

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

**j) Accrued liabilities, provisions, contingent liabilities and commitments**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and 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.

If the effect of the time value of money is material, provision amounts are determined as the present value of the expected disbursements to settle the obligation. The discount rate is determined on a pre-tax basis and reflects current market conditions at the balance sheet date and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are recognized when they will most likely give rise to a future cash disbursement for their settlement. Also, commitments are only recognized when they will generate a loss.

**k) Reserve for seniority premiums and termination payments**

Seniority premiums are paid to workers as required by Mexican labor law. Additionally, under Mexican labor law, the Company is obligated for certain benefits accruing to workers who leave or are dismissed in certain circumstances.

At December 31, 2022 and 2021, the Company recognized the liability for seniority premiums based on independent actuarial computations applying the projected unit credit method, using financial assumptions net of inflation. The latest actuarial computation was prepared at December 2022.

As at December 31, 2022 and 2021, the Company did not record a provision for its obligation related to termination benefits, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 Employee benefits in the amount of Ps. 2,429,362 and Ps. 2,823,234, respectively.

#### **l) Employee profit sharing**

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

The deferred employee profit sharing shall be determined using the asset and liability method. Under this method, deferred profit sharing is to be computed by applying the 10% rate to all temporary differences between the values of all assets and liabilities for financial and tax reporting purposes.

#### **m) Exchange differences**

Transactions in foreign currency are recorded at the prevailing exchange rate on the day of the related transactions. Foreign currency denominated assets and liabilities are translated at the prevailing exchange rate at the balance sheet 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 date of the statement of financial position, are recognized in the statement of comprehensive income.

See Note 6 for the foreign currency position at the end of each year and the exchange rates used to translate foreign currency denominated balances.

#### **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.



8.

#### **Deferred income tax**

Deferred taxes on profits are 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 effective 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.

#### **o) Statement of comprehensive income presentation**

Costs and expenses shown in the Company's statement of income are presented based on their function, since such classification allows for an accurate evaluation of both gross profit and operating margins.

Although Mexican FRS B-3 does not require the presentation of operating income, this caption is shown in the statement of income, since operating income is an important indicator used for evaluating the Company's operating results.

#### **p) Equity**

Changes in the Company's equity and cumulative gains are recognized in terms of historical cost as of 1 January 2008.

#### **q) Financial risk management objectives and policies**

The Company is exposed to (i) economic independence.

#### **(i) Economic dependence**

The main risk associated with the Company is that practically 100% of the Company's net revenue derives from services rendered to its related party MSSL Wiring System, Inc. In the event that such related party stopped their production or not pay the Company for their services in a timely fashion, the financial position and the results of operations of the Company would be adversely affected. The Company anticipates that this significant customer concentration will continue for the foreseeable future.

## r) New accounting pronouncements

### **Standards, interpretations and improvements to Mexican FRS issued but not yet effective**

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

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

### **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.

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 a description of the qualitative characteristics of financial statements, changes to valuation concepts, and the inclusion of CINIF Technical Reports as an integral part of Mexican FRS, among others.

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

### **New standards, interpretations and improvements to Mexican FRS effective as at 1 January 2022**

#### **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.

10.

#### **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.

#### **Improvements to Mexican FRS for 2022**

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-7 Business Combinations**

The standard establishes guidelines for the accounting treatment of business combinations under common control which used to be outside the scope of Mexican FRS B-7.

The standard establishes that the “book-value method” (also known as the “carrying amount method”) shall be applied to business combinations under common control.

Under the book-value method, the acquirer recognizes the net assets acquired from the acquiree at their net carrying amount at the acquisition date, and any difference determined between the consideration paid and the book value of the assets and liabilities received is recognized in equity. If no consideration is paid, the effect recognized in the equity of the acquirer shall be equal to the value of the net assets acquired.

Business combinations under common control (including mergers due to the Company’s restructuring) are to be recognized using the book-value method, except when the acquirer has non-controlling shareholders affected by the combination and/or if the acquirer’s shares are listed on a stock exchange. In both cases, the acquisition method must be used in accordance with Mexican FRS B-7.

This improvement is effective for annual periods beginning on or after 1 January 2022, with early adoption permitted for annual periods beginning on or after 1 January 2021. Any accounting changes arising from the adoption of this improvement are to be recognized prospectively.

The adoption of the adoption of this new accounting standard had no impact on its financial statements.

**(ii) Mexican FRS D-3 Employee Benefits**

Mexican FRS D-3 establishes a procedure to determine deferred employee profit sharing in the cases in which it is deemed that employee profit sharing will be paid at a rate lower than the current rate in future periods as a result of changes in the calculation of current employee profit sharing arising from the labor outsourcing reform.

Under the aforementioned procedure, entities are required to prepare financial and tax projections to make the best possible estimate of the rate that will be in effect when temporary differences are expected to be realized in order to calculate deferred employee profit sharing. An estimate may also be made based on the current employee profit sharing rate for the period.

This improvement is effective for annual periods beginning on or after 1 January 2022, with early adoption permitted for annual periods beginning on or after 1 January 2021. Any accounting changes arising from the adoption of this improvement are to be recognized prospectively.

The adoption of the adoption of this new accounting standard had no impact on its financial statements.

**(iii) Mexican FRS B-1 Accounting Changes and Error Corrections**

Entities are no longer required to disclose proforma financial information when there is a change in the entity's financial structure. In addition, when there is a change in an entity's financial structure, such entity is required to disclose the effect of this change on its revenue, as well as on its net profit and comprehensive income or in the net changes in equity and, if applicable, on its earnings per share for each of the comparative periods reported in respect of the period in which the change is made.

This improvement is effective for annual periods beginning on or after 1 January 2022, with early adoption permitted for annual periods beginning on or after 1 January 2021. Any accounting changes arising from the adoption of this improvement are to be recognized prospectively.

The adoption of the adoption of this new accounting standard had no impact on its financial statements.

**(iv) Mexican FRS B-10 Effects of Inflation**

Inflation disclosures for entities that operate in a non-inflationary economic environment are now limited to relevant scenarios, e.g., it is expected that an increase in inflation rates could eventually lead to a change in the inflationary economic environment.

12.

This improvement is effective for annual periods beginning on or after 1 January 2022, with early adoption permitted for annual periods beginning on or after 1 January 2021. Any accounting changes arising from the adoption of this improvement are to be recognized prospectively.

The adoption of the adoption of this new accounting standard had no impact on its financial statements.

#### **(v) Mexican FRS C-6 Property, Plant and Equipment**

Entities are no longer required to disclose the stage of completion of construction in process (when there is an approved plan in place).

This improvement is effective for annual periods beginning on or after 1 January 2022, with early adoption permitted for annual periods beginning on or after 1 January 2021. Any accounting changes arising from the adoption of this improvement are to be recognized prospectively.

The adoption of the adoption of this new accounting standard had no impact on its 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.

The adoption of the adoption of this new accounting standard had no impact on its financial statements.

##### **(ii) Mexican FRS D-4 Income taxes**

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

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

## 2. Related parties

a) An analysis of balances due to related parties at December 31, 2022 and 2021, is as follows:

	2022	2021
Receivables:		
MSSL Wiring System, Inc.	Ps. 521,035	Ps. -
Total	Ps. 521,035	Ps. -
Payables:		
MSSL Wiring System, Inc.	Ps. -	Ps. 372,793
Total	Ps. -	Ps. 372,793

In 2015, the Company entered into a Maquiladora service agreement to render for the supply, storage, distribution, classification, inspection, testing or verification of goods; design or engineering of products; Maintenance and support of computer systems, data processing; training, consulting and evaluation for the improvement of human capital; assurance of the quality and processes of the companies in the sector of technologies of the information and processes of administration, finances, accounting, collection, payroll, human and legal resources; control of production and clinical analysis to its related party MSSL Wiring System, Inc. (MWS) in the United States, which provides that these services are to be billed based on costs incurred plus a profit margin.

b) During the year ended December 31, 2022 and 2021, the Company had the following transactions with related companies:

	2022	2021
Revenue in bond services	Ps. 25,221,364	Ps. 26,490,993

## 3. Recoverable taxes

An analysis of recoverable taxes at December 31, 2022 and 2021, is as follows:

	2022	2021
Valued added tax	Ps. 138,088	Ps. 192,723
Total	Ps. 138,088	Ps. 192,723

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#### 4. Leasehold improvements, machinery and equipment

a) An analysis of leasehold improvements at December 31, 2022 and 2021, is as follows:

	Useful life in years	2022		2021	
		Investment	Accumulated depreciation	Investment	Accumulated depreciation
Leasehold improvements	5	Ps. 1,700,787	Ps. 1,700,787	Ps. 1,700,787	Ps. 1,700,787
Furniture	5	204,056	52,714	204,056	32,309
Machinery and equipment	5	161,394	85,103	161,394	52,557
Computer equipment	3	241,961	20,164		
		<u>Ps. 2,308,198</u>	<u>Ps. 1,858,768</u>	<u>Ps. 2,066,237</u>	<u>Ps. 1,785,653</u>
Leasehold improvements, machinery and equipment, net		<u>Ps. 449,430</u>		<u>Ps. 280,584</u>	

b) Depreciation expense for the year ended December 31, 2022 and 2021, was Ps. 73,115 and Ps. 55,899, respectively.

#### 5. Provisions and accrued liabilities

At December 31, 2022 and 2021, the Company has recognized accrued liabilities for short term employee benefits. An analysis is as follows:

	2022	2021
Short term provisions:		
Taxes on payroll	Ps. 854,045	Ps. 854,692
Other	214,310	256,632
Payroll	269,194	177,510
	<u>Ps. 1,337,549</u>	<u>Ps. 1,288,834</u>

The other provisions recognized represent services contracted during the year that will be paid in the following year.

#### 6. Foreign currency balances and transactions

a) The financial statements at December 31, 2022 and 2021, include the following U.S. dollar denominated assets:

	2022	2021
Current assets:		
Cash	USD. 1,618	USD. 1,972
Total monetary asset position	<u>USD. 1,618</u>	<u>USD. 1,972</u>

The exchange rate used to translate the above amounts to Mexican pesos at December 31, 2022 and 2021, were Ps. 19.3615 and Ps. 20.5157 and, respectively per U.S. dollar. At July 26, 2023, the date of the issuance of these financial statements, the exchange rate is Ps. 16.9075 per U.S. dollar.

## 7. Short-term employee benefits

### a) Short term benefits

At December, 31, 2022 and 2021, the Company has recognized accrued liabilities for short-term direct benefits. An analysis is as follows:

	2022	2021
Vacation	Ps. 259,260	Ps. 131,967
Employee profit sharing	193,381	140,604
Vacation premium	99,879	32,616
Total	Ps. 552,520	Ps. 305,187

### b) Employee Profit Sharing (EPS)

The MITL establishes that the basis for the determination of the EPS of the fiscal year is the fiscal profit that is determined for the calculation of the Income Tax for the year considering certain adjustments considered by the LISR itself.

An analysis of employee profit sharing for the years ended 31 December 2022 and 2021 is as follows:

	2022	2021
Current employee profit sharing	Ps. 188,499	Ps. 131,967
Deferred employee profit sharing	( 49,431)	53,173
	Ps. 139,068	Ps. 185,140

### c) Deferred Employee Profit Sharing (EPS)

An analysis of the Company's deferred employee profit sharing (EPS) assets/(liabilities) as at 31 December 2022 and 2021 is as follows:

	2022	2021
Deferred EPS assets		
Provisions	Ps. 67,047	Ps. 37,735
Leasehold improvements	46,396	55,946
	113,443	93,681
Deferred EPS liabilities		
Prepaid expenses	( 5,192)	( 34,861)
	( 5,192)	( 34,861)
Deferred employee profit sharing asset, net	Ps. 108,251	Ps. 58,820



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## 8. Labor obligations

An analysis of the reserve for seniority premiums and termination payments and the net period cost, together with the basic actuarial assumptions considered in the computation of labor obligations, is as follows:

### a) Net periodic benefit cost:

Analysis of net benefit cost for 2022:

Current year service cost  
Net interest cost  
Remeasurements of past service cost  
Net periodic cost

	Seniority premiums		Total 2022
Ps.	28,909	Ps.	28,909
	14,458		14,458
(	6,610)	(	6,610)
Ps.	36,757	Ps.	36,757

Analysis of net benefit cost for 2021:

Current year service cost  
Net interest cost  
Remeasurements of past service cost  
Net periodic cost

	Seniority premiums		Total 2021
Ps.	44,247	Ps.	44,247
	14,109		14,109
(	39,681)	(	39,681)
Ps.	18,675	Ps.	18,675

### b) Defined benefit liability:

Liabilities:

Defined reformulated benefit obligations  
as at January 1, 2022  
Net periodic cost  
Effective payments  
Other comprehensive for the year  
Net projected liability

	Seniority premiums		Total 2022
Ps.	165,871	Ps.	165,871
	36,757		36,757
(	26,002)	(	26,002)
(	15,197)	(	15,197)
Ps.	161,429	Ps.	161,429

Liabilities:

Defined reformulated benefit obligations  
as at January 1, 2021  
Net periodic cost  
Effective payments  
Other comprehensive for the year  
Net projected liability

	Seniority premiums		Total 2021
Ps.	223,506	Ps.	223,506
	18,675		18,675
	13,314		13,314
(	89,624)	(	89,624)
Ps.	165,871	Ps.	165,871

Weighted average assumptions used to determine the benefit obligation as of December:

	2022	2021
Discount rate	9.35%	8.90%
General salary increase	5.00%	5.00%
Minimum salary increase	4.00%	4.00%

## 9. Shareholders' equity

At December 31, 2022 and 2021, partnership capital is Ps. 50,000 (nominal amount). Total partnership capital is represented by 50,000 common registered shares, issued and outstanding, with a par value of one Mexican peso each.

### a) Legal reserve

In conformity 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 until the legal reserve reaches 20% of capital stock. At December 31, 2022 and 2021, the Company has not separated the legal reserve.

### b) Dividends

The distribution of equity, except for imports imported from the capital stock contributed and withheld taxable profits, causing the ISR on dividends to Company charge at the current rate. The tax paid for such distribution may be credited against the income tax for the year in which the dividend tax is paid and in the following two immediate years, against the tax for the year and the provisional payments thereof.

At regular shareholders' meeting held on June 13, 2022, the shareholders declared dividends of Ps. 1,153,588; the dividends were paid during 2022 until the company's liquidity helped.

At regular shareholders' meeting held on December 31, 2021, the shareholders declared dividends of Ps. 1,112,760; the dividends were paid during 2021 until the company's liquidity helped.

The profits that are distributed in excess to the balance of the CUFIN (Net Tax Profit Account); necessarily subject to the payment of the corporate ISR at the rate in force at the time of distribution.

Dividends paid to natural persons and legal entities resident abroad will be fixed to a withholding of an additional 10% tax.

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## 10. Income tax

### Income Tax (IT)

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

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) An analysis of income tax recognized in profit and loss for the years ended 31 December 2022 and 2021 is as follows:

	2022	2021
Current income tax	Ps. 835,931	Ps. 687,919
Deferred income tax	( 134,469)	143,062
Total income tax	Ps. 701,462	Ps. 830,981

c) An analysis of deferred taxes shown in the balance sheet is as follows:

	2022	2021
Deferred tax assets:		
Liability provisions	Ps. 201,142	Ps. 113,206
Leasehold improvements	139,189	167,838
Employee profit sharing	56,550	39,590
Deferred profit sharing	-	15,952
	396,881	336,586
Deferred tax liabilities:		
Liability provisions	( 15,580)	( 104,583)
Deferred profit sharing	( 14,829)	-
	( 30,409)	( 104,583)
Deferred income tax asset, net	Ps. 366,472	Ps. 232,003

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

	2022	2021
Income before tax	Ps. 1,143,705	Ps. 1,239,577
Permanent differences:		
Non-deductible expenses	1,534,101	1,310,604
Inflationary effects	75,895	90,140
Other items	( 415,493)	129,615
Income before income tax, plus permanent items	2,338,208	2,769,936
Statutory income tax rate	30%	30%
Total income tax	Ps. 701,462	Ps. 830,981
Effective tax rate	61%	67%

d) Tax balances

At December 31 2022, the Company had the following tax balance:

	2022
Restated Contributed Capital Account (CUCA)	Ps. 72,144
Net Taxed Profits Account (CUFIN)	2,589,176

## 11. Contingencies and commitments

At December 31, 2022, MSSL Wirings Juárez, S.A. de C.V., is responsible for the following commitments and contingencies:

- The Company is responsible for all differences that could rise as a result of any review performed by the Tax Authorities.
- The company is subject to litigation in the normal course of business. As of December 31, 2022, in opinion of the Company's attorneys, there are no material matters of a legal nature.
- In accordance with the Income Tax Law, companies that carry out transactions with related parties are subject to fiscal limitations and obligations, in terms of determining agreed prices, since they must be comparable to those that would be used with or between independent parties. in comparable operations. If the tax authorities review the prices and reject the amounts determined, they could demand, in addition to the collection of the tax and corresponding accessories (updating and surcharges), fines on the omitted contributions, which could be up to 100% about the updated amount of contributions.

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## 12. Operating leases

The Company has entered into an operating lease for the building located at Ciudad Juárez, where its offices and warehouses are located. The contract is for a period ranging from two years with a extensive clause of one additional year, during 1 consecutive years and ends on February 2024; the minimum annual lease payments during the next year, is as follow:

	Thousands of U.S. dollars
2023	USD. 84,629
2024	USD. 7,052
Total	<u>USD. 91,681</u>

Rent charged to results of operations for operating leases was Ps. 1,590,317 and Ps. 1,531,897, in 2022 and 2021, respectively.