

MSSL MÉXICO, S.A. DE C.V.  
(Subsidiary of MSSL (S) Pte. Ltd.)

Financial statements

31 December 2020 and 2019  
with independent auditor's report

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(Subsidiary of MSSL (S) Pte. Ltd.)

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders  
of MSSL México, S.A. de C.V.

### Opinion

We have audited the accompanying financial statements of MSSL México, S.A. de C.V. ("the Company"), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MSSL México, S.A. de C.V. as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards ("MFRS").

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the 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 Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

#### Auditors' responsibilities for the audit of the financial statements

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

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

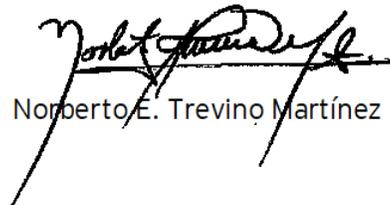
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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

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



Norberto E. Trevino Martínez

Monterrey, Nuevo León  
20 May 2021.

MSSL MÉXICO, S.A. DE C.V.  
(Subsidiary of MSSL (S) Pte. Ltd.)

Statements of financial position

(Amounts in Mexican pesos) (Note 1b)

	As at 31 December	
	2020	2019
<b>Assets</b>		
Current assets:		
Cash (Note 3)	\$ 60,003,091	\$ 20,633,238
Accounts receivable:		
Trade receivables (Note 2.b)	5,548,860	4,003,771
Related parties (Note 5)	58,487,106	60,797,384
Recoverable taxes (Note 6)	8,481,196	3,238,923
Others accounts receivable	1,654,196	1,197,263
Inventories, net (Note 7)	60,912,110	79,201,515
Derivative financial instruments (Note 12)	3,611,319	1,496,322
Total current assets	<u>198,697,878</u>	<u>170,568,416</u>
Non-current assets:		
Property, plant and equipment, net (Note 8)	36,229,938	40,810,427
Deferred income tax (Note 16)	12,663,514	11,896,772
Deferred employee profit sharing (Note 14)	4,052,700	3,807,197
Security deposits	333,785	323,841
Total non-current assets	<u>53,279,937</u>	<u>56,838,237</u>
Total assets	<u>\$ 251,977,815</u>	<u>\$ 227,406,653</u>
<b>Liabilities and equity</b>		
Current liabilities:		
Suppliers	\$ 24,394,435	\$ 17,897,977
Taxes payable	503,171	6,208,885
Related parties (Note 5)	2,622,477	8,807,113
Other accounts payable and accrued expenses (Note 10)	30,539,285	27,204,934
Short-term employee benefits (Note 14)	4,752,006	5,391,135
Total current liabilities	<u>62,811,374</u>	<u>65,510,044</u>
Long-term liabilities:		
Net employee defined benefit liabilities (Note 13)	<u>5,219,312</u>	<u>2,248,646</u>
Total long-term liabilities	<u>5,219,312</u>	<u>2,248,646</u>
Total liabilities	<u>68,030,686</u>	<u>67,758,690</u>
Equity (Note 15):		
Share capital	114,097,957	114,097,957
Retained earnings	44,294,951	10,987,941
Net profit	25,741,849	33,307,010
Other components of equity (Note 18)	( 187,628)	1,255,055
Total equity	<u>183,947,129</u>	<u>159,647,963</u>
Contingencies and commitments (Note 19)	-	-
Total liabilities and equity	<u>\$ 251,977,815</u>	<u>\$ 227,406,653</u>

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

George Chambers  
Legal Representative

MSSL MÉXICO, S.A. DE C.V.  
(Subsidiary of MSSL (S) Pte. Ltd.)

Statements of comprehensive income

(Amounts in Mexican pesos) (Note 1b)

	For the years ended 31 December	
	2020	2019
Revenue from contracts with customers (Note 2.a.1)	\$ 428,603,805	\$ 479,379,072
Cost of sales (Note 17.a)	( 380,389,181)	( 419,086,986)
Gross profit	48,214,624	60,292,086
Operating expenses (Note 17.a)	( 17,224,030)	( 12,558,836)
Operating profit	30,990,594	47,733,250
Net financing cost (Note 17.b):		
Interest income	-	29,432
Interest expense	-	( 127,757)
Foreign exchange gain, net	7,303,460	38,944
	7,303,460	( 59,381)
Profit before income tax	38,294,054	47,673,869
Income tax (Note 16)	( 12,552,205)	( 14,366,859)
Net profit	25,741,849	33,307,010
Other comprehensive income (Note 18)		
Remeasurement on actuarial gains and losses	( 3,441,220)	( 1,652,905)
Effect on employee profit sharing	182,385	24,050
Effect on income tax	547,154	72,148
	( 2,711,681)	( 1,556,707)
Net gain on cash flow hedges	2,114,997	264,347
Effect on employee profit sharing	( 211,500)	( 26,435)
Effect on income tax	( 634,499)	( 79,304)
	1,268,998	158,608
Other comprehensive income for the year	( 1,442,683)	( 1,398,099)
Comprehensive income	\$ 24,299,166	\$ 31,908,911

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

George Chambers  
Legal Representative

MSSL MÉXICO, S.A. DE C.V.  
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Statements of changes in equity

For the years ended 31 December 2020 and 2019

(Amounts in Mexican pesos) (Note 1b)

	Share capital	Retained earnings (losses)	Net profit	Other components of equity	Total equity
Balance as at 31 December 2018	\$ 114,097,957	\$ ( 10,300,566)	\$ 21,288,507	\$ 2,653,154	\$ 127,739,052
Application to retained earnings		21,288,507	( 21,288,507)		-
Comprehensive income			33,307,010	( 1,398,099)	31,908,911
Balance as at 31 December 2019	114,097,957	10,987,941	33,307,010	1,255,055	159,647,963
Application to retained earnings		33,307,010	( 33,307,010)		-
Comprehensive income			25,741,849	( 1,442,683)	24,299,166
Balance as at 31 December 2020	\$ 114,097,957	\$ 44,294,951	\$ 25,741,849	\$ ( 187,628)	\$ 183,947,129

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

George Chambers  
Legal Representative

MSSL MÉXICO, S.A. DE C.V.  
(Subsidiary of MSSL (S) Pte. Ltd.)

Statements of cash flows

(Amounts in Mexican pesos) (Note 1b)

	For the years ended 31 December	
	2020	2019
Operating activities		
Profit before income tax	\$ 38,294,054	\$ 47,673,869
Items not affecting cash flows:		
Employee benefits (Note 13)	815,423	( 838,788)
Deferred employee profit sharing (Note 14)	( 274,618)	( 652,533)
Items related to investing activities:		
Depreciation of property, plant and equipment (Note 8)	4,170,360	4,522,055
Gain on sale of property, plant and equipment	( 124,251)	( 435,948)
Interest income	-	( 29,432)
Items related to financing activities:		
Interest expenses	-	127,757
Total	42,880,968	50,366,980
Changes in operating assets and liabilities:		
Accounts receivable	( 1,545,089)	294,695
Inventories	18,289,405	( 9,875,641)
Other accounts receivable and other assets	( 3,500,089)	4,232,620
Related parties, net	( 3,874,357)	( 10,816,489)
Suppliers	6,496,458	( 11,053,208)
Other accounts payable	2,695,219	( 684,820)
Employee benefits payment	( 1,285,977)	( 106,095)
Tax paid	( 21,321,065)	( 14,128,302)
Net cash flows from operating activities	38,835,473	8,229,740
Investing activities		
Purchase of property, machinery and equipment	-	( 1,071,985)
Proceeds from sale of property, plant and equipment	534,380	1,045,832
Interest received	-	29,432
Net cash flows generated by investing activities	534,380	3,279
Cash surplus to be applied to financing activities	39,369,853	8,233,019
Financing activities		
Pay of bank loans	-	( 11,809,740)
Interest paid	-	( 127,757)
Net cash flows used in financing activities	-	( 11,937,497)
Increase (decrease) of cash	39,369,853	( 3,704,478)
Cash at beginning of the year	20,633,238	24,337,716
Cash at end of the year	\$ 60,003,091	\$ 20,633,238

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

George Chambers  
Legal Representative

MSSL MÉXICO, S.A. DE C.V.  
(Subsidiary of MSSL (S) Pte. Ltd.)

Notes to the financial statements

31 December 2020 and 2019

(Amounts in Mexican pesos, unless otherwise indicated)

1. Nature of operations, relevant events, and summary of significant accounting policies

Operations

MSSL México, S.A. de C.V. (collectively, “the Company”) which is a subsidiary of MSSL (S) Pte. Ltd, which in turn is a subsidiary of Motherson Sumi Systems Limited and a corporation incorporated under the laws of Mexico on March 1, 2012. Its main address is San Luis Potosí, S.L.P. and its main activity is manufacturing, design and commercialization of all kind of cables and cable sets, as well as all kind of products and components for the automotive industry. The Company is a 99.9% owned direct subsidiary of MSSL (S) Pte. Ltd. (direct holding company), and an indirect subsidiary of Motherson Sumi Systems Limited (ultimate holding company).

The Company has been incorporated for an unspecified term.

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

On 20 May 2021, the financial statements and these notes were authorized by the Company’s Operations Manager, George Chambers for their issue and subsequent approval by the Company’s Board of Directors and shareholders, who have the authority to modify the financial statements. Information on subsequent events covers the period from 1 January 2020 through the above-mentioned issue date of the financial statements.

Relevant events

COVID-19

In late 2019, the disease known as “COVID-19” began to spread in the Wuhan region of the People’s Republic of China. On 30 January 2020, the Emergency Committee of the International Health Regulations of the World Health Organization declared an international health emergency due to the outbreak and spread of COVID-19. Because of COVID-19, cases spread to several countries, causing thousands of deaths, the World Health Organization declared the disease a global pandemic in March 2020. The spread of COVID-19 around the world, the declaration of the disease as a pandemic and the actions taken by governments, companies and individuals over the world, have generated high volatility in global financial markets, as well as significant economic impacts worldwide. As of the date of these financial statements, it is impossible to predict how long the COVID-19 pandemic will last, or the measures that will be taken to prevent its spread.

2.

The spread of COVID-19 and other adverse events related to public health in Mexico, could have a significant adverse effect on the Company business, financial position, operations and prospective results. However, the Company has modified its strategy and objectives, to mitigate the effects and uncertainty caused by the COVID-19 disease.

Covid-19, an infectious disease caused by a new virus, was declared a global pandemic by the WHO on 11 March 2020. Measures to slow the spread of Covid-19 have had a significant impact on the global economy. Entities should consider the impact of Covid-19 when preparing their financial statements. Although the application of judgments in specific areas of the financial statements may not change, the impact of Covid-19 created the need for more judgment within those areas. Given the changing nature of Covid-19 and the limited recent experience of the economic and financial impacts of this pandemic, changes may be necessary in the future in the valuation of entities' assets and liabilities.

Entities should consider whether to disclose the measures they have adopted, in accordance with the recommendations of the WHO and the national health secretariats, to preserve the health of their employees and support the prevention of contagion in their administrative and operational areas, such as working from home, reduction of work shifts in operational areas to minimize the number of workers commuting to work, rigorous cleaning of workplaces, distribution of personal protective equipment, testing suspected cases and measuring body temperature.

#### Summary of significant accounting policies

##### a) Compliance with Mexican Financial Reporting Standards ("MFRS")

The financial statements as of 31 December 2020 and 2019 have been prepared in accordance with Mexican Financial Reporting Standards ("MFRS" or "Mexican FRS").

##### b) Basis of presentation

The financial statements as of 31 December 2020 and 2019, have been prepared on a historical-cost basis except for derivative financial instruments, debt and equity financial instruments and contingent consideration that have been measured at fair value.

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

From 1 January 2008 Mexico is considered to have a non-inflationary economic environment, as defined under Mexican FRS B 10 "Effects of inflation". As at 31 December 2020 and 2019, 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 2020 and 2019 is as follows:

	Cumulative inflation for 2019	Cumulative inflation for 2020	Inflation for the year
	(sum of inflation rates for 2017, 2018 and 2019)	(sum of inflation rates for 2018, 2019 and 2020)	(inflation rate for 2020)
Inflation rates	14.43%	10.81%	3.15%

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.

The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to recognize changes in the fair value attributable to the risks that are being hedged in effective hedge relationships.

#### 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 unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

4.

c) Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

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

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

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

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

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

Disclosures for valuation methods, significant estimates and assumptions	Notes 1c), 2 y 4.a.3
Quantitative disclosures of fair value measurement hierarchy	Note 2
Financial instruments (including those carried at amortized cost)	Note 1h), 1i), 4.a.4 y 12

#### d) Functional currency

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

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

#### e) Revenue from contracts with customers

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

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

6.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 1f).

#### Sale of goods

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

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

The Company determines a price reserve for some products considering the cooper price established with client at the beginning of the year and the real price (market price) of this commodity. Any fluctuation is accrued monthly and reimbursed to clients through a credit note as a price reduction.

#### (i) Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of automotive parts provide customers with a volume rebate. The volume rebates give rise to variable consideration.

- Volume rebates

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Company applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Company then applies the requirements on constraining estimates of variable consideration and recognizes a refund liability for the expected future rebates (i.e., the amount not included in the transaction price).

## Contract balances

### Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Note 1h) of financial instruments – initial recognition and subsequent measurement.

### Contract liabilities and advances from customers

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

### Assets and liabilities arising from rights of return

#### Right of return assets

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

#### Refund liabilities

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

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

8.

f) Use of estimates

The preparation of the Company's financial statements in accordance with Mexican FRS requires management to make judgements, estimates and significant assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The Company 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.

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

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

Estimates and assumptions

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

Judgements

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

Revenue from contracts with customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- Determining method to estimate variable consideration and assessing the constraint

Certain contracts for the sale of automotive parts include a volume rebates that give rise to variable consideration. In estimating the variable consideration, the Company is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

In estimating the variable consideration for the sale of automotive parts with volume rebates, the Company determined that using a combination of the most likely amount method and expected value method is appropriate. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contracts. The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

Before including any amount of variable consideration in the transaction price, the Company considers whether the amount of variable consideration is constrained. The Company determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

#### Estimating variable consideration for volume rebates

The Company estimates variable considerations to be included in the transaction price for the sale of automotive parts with volume rebates.

The Company developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Company.

The Company's expected volume rebates are analyzed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will be likely entitled to rebate will depend on the customer's historical rebates entitlement and accumulated purchases to date.

The Company updates its assessment of volume rebates annually and the refund liabilities adjusted accordingly. Estimates of volume rebates are sensitive to changes in circumstances and the Company's past experience regarding rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As at 31 December 2020, the amount recognized as refund liabilities for the volume rebates was \$2,794,552 (in 2019 \$4,274,364).

#### Provision for Expected Credit Losses (ECL) of trade receivables

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

10.

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables and contract assets is disclosed in Note 1j).

#### Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the Discounted Cash Flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 2 y 4.a.3 for further disclosures.

#### 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.

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

- Property, plant and equipment Note 1n)
- Sensitivity analyses, which are described with further detail Note 4.a.4

#### Defined benefit plans (pension benefits)

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

In determining the appropriate discount rate, management considers the interest rates of marketable securities in currencies consistent with the currencies of the post-employment benefit obligation by reference to market yields on high-quality corporate bonds or when no such information is available, by reference to market yields on government bonds. When a corporate bond rate is used, the underlying bonds are further assessed for quality, and those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based due to their low quality. As at 31 December 2020 and 2019, the Company has used a government bond rate to discount its long-term defined employee benefits, since management believes that this rate best reflects the present value of the Company's expected future benefit payments based on the characteristics of plan participants and the estimated future payment dates of the benefits.

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

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

Additional information on the assumptions used is provided in Note 13.

#### g) Cash

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

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

12.

h) Financial instruments – initial recognition and subsequent measurement

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

(i) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

- Financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by Mexican FRS C-10. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in Mexican FRS C-2 and Mexican FRS C-19 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Financial liabilities derecognition

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

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

#### (ii) Offsetting of financial instruments

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

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

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

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

#### i) Derivative financial instruments and hedge accounting

##### Initial recognition and subsequent measurement

The Company uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

14.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

#### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Company uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognized as other expense. Refer to Note 11 for more details.

The Company designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under cost of hedging reserve.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction.

j) Trade receivables and other accounts receivable

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

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

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

The amount of a receivable can vary because of rebates, discounts or refunds, and the corresponding changes to the consideration amount are recognized at the time the customer becomes entitled to such rebate, discount or refund.

Accounts receivable are initially recognized at the transaction price determined in accordance with Mexican FRS D-1 and subsequently adjusted to the amount of the transaction price that has not been collected from the customer.

Receivables denominated in foreign currency or in another medium of exchange are translated to the Company's functional currency using the rate of exchange prevailing at the reporting date.

Changes in the amount of trade receivables arising from exchange rate fluctuations are recognized as part of net financing cost.

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

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

16.

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

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

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

k) Allowance for expected credit losses

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

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

l) Inventories

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

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

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

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

m) Prepaid expenses

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

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

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

The Company periodically evaluates its prepaid expenses to determine the likelihood that they will cease to generate future economic benefits and to assess their recoverability.

n) Property, plant and equipment

Property, plant and equipment is measured initially at cost.

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

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

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 described in Note 8.

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

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.

18.

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

For the years ended as at 31 December 2020 and 2019, there were no indicators of impairment.

o) 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.

(i) Short-term leases and leases of low-value assets

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.

p) Provisions, contingent liabilities and commitments

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

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

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

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

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

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

q) Net employee defined benefit liabilities

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

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are immediately recognized in the statement of financial position with the effect recognized in OCI in equity, and they are recycled to profit or loss in a subsequent period based on the average remaining working lives of the employees expected to receive the benefits of the current plan.

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

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

r) Compensated absences

The Company creates a provision for the costs of compensated absences, such as paid annual leave, which is recognized using the accrual method.

s) Employee Profit Sharing (EPS)

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

20.

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

Deferred employee profit sharing that has not yet been realized are recognized in equity and reclassified to profit or loss immediately as accrued. See Note 14c).

t) Exchange differences

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

Exchange differences from the transaction date to the time foreign currency denominated assets and liabilities are settled are recognized in the statement of income, except for those arising on foreign currency denominated loans obtained for the construction of fixed assets, as such costs are capitalized as borrowing costs during the construction period of the assets. 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 11 for the Company's foreign currency position at the end of each period and the exchange rates used to translate foreign currency denominated balances.

u) Comprehensive income

Comprehensive income represents the increase or decrease in earned capital from net income or loss for the year, components of other comprehensive income (OCI). Other comprehensive income (OCI) consists of income, cost and expense items recognized in equity that are expected to be realized in the medium or long term and whose amounts may change due to changes in the fair value of the assets and liabilities that gave rise to them, making their realization uncertain. OCI includes gains and losses on hedges and available-for-sale securities and net defined benefit liability remeasurement gains and losses.

v) Income tax

Current income tax

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

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

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

#### w) Statement of comprehensive income presentation

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

Although not required to do so under Mexican FRS, the Company includes operating income in the income statement, since this item is an important indicator for evaluating the Company's operating results, given that this is a common disclosure in the industry in which the Company operates.

#### x) Equity

Changes in the Company's equity, legal reserve and Retained earnings (losses) are recognized in terms of historical cost.

#### y) Financial risk management objectives and policies

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

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

22.

(i) Market risks

- Interest rate risk – This risk results from fluctuations in market interest rates, which affect the value of the Company's contracted debt, lease obligations and derivative financial instruments.
- Foreign currency risk – This risk results from volatility in the foreign currency market, which affects the value of the Company's foreign currency holdings, and its foreign-currency denominated in cash, accounts receivable, related-party transactions, supplier accounts and other accounts payable, debt and derivative financial instruments.

(ii) Credit risk

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

(iii) Liquidity risk

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

The Company monitors its liquidity risk using liquidity planning tools.

Concentration of risk

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

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

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

## z) Capital management

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

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

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

## aa) New accounting pronouncements

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

The standards 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) C-15 Impairment of long-lived assets (effective for annual periods beginning on or after 1 January 2022)

Mexican FRS C-15 Impairment of long-lived assets was issued by the CINIF in December 2020 and sets out the framework for the accounting recognition of impairment losses on the value of long-lived assets, and their reversal.

24.

Mexican FRS C-15 will supersede Bulletin C-15 Accounting for the Impairment or Disposal of Long-lived Assets. The most important changes contained in the new standard are as follows: Mexican FRS C-15 provides new examples to assess whether there is any indication that an asset may be impaired, for the purpose of impairment testing, the term net selling price is now replaced by the term fair value less costs to sell, entities now have the option to use an estimate of future cash flows and a real discount rate, to determine the recoverable amount, new guidelines for the accounting treatment of foreign currency future cash flows, new guidelines for the allocation of goodwill at a cash-generating unit (CGU) level and recognition of an impairment loss, impairment tests will no longer be determined using the perpetuity value for intangible assets with indefinite useful lives and, as a result, such impairment tests have been modified, new guidelines that address the impairment of corporate assets, and as a result of the aforementioned changes, the disclosure guidelines have been modified.

Mexican FRS C-15 is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

The adoption of Mexican FRS C-15 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-3 Statement of comprehensive income; Mexican FRS C-2 Investment in financial instruments; Mexican FRS C-19 Financial liabilities; and Mexican FRS C-20 Financial assets

Entities are now required to separately recognize, as part of operating results in the statement of comprehensive income, any gains and losses arising on derecognition of liabilities as well as the effects of renegotiation of financial assets to collect principal and interest ("IFCPI" as it stands for in Spanish) or financial assets to collect or sell ("IFCV" as it stands for in Spanish), known as "loan reduction".

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.

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

The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective, even if early application is permitted.

The nature and effect of the changes arising from the adoption of these new accounting standards are described below.

The following new accounting pronouncements are effective for annual periods beginning on or after 1 January 2020:

Interpretation to Mexican FRS 23 Recognition of the effect of rent relief related to the COVID-19 pandemic

Interpretation to Mexican FRS 23 Recognition of the effect of rent relief related to the COVID-19 pandemic was issued by the CINIF in June 2020 to establish guidelines for the recognition of lessees in order to reflect the effects of rent relief received directly as a result of the COVID-19 pandemic.

Interpretation to Mexican FRS 23 establishes a practical expedient to exempt lessees from applying Mexican FRS D-5 Leases guidance on lease modification accounting for rent reliefs or concessions arising as a direct consequence of the Covid-19 pandemic. As part of this a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent relief from a lessor is a lease modification. Lessees that make this election shall account for any gain resulting from rent forgiveness as a partial reduction to the lease liability in net profit or loss in the year in which the event or condition triggering the payment occurred, without it being necessary to adjust the right-of-use asset.

Interpretation to Mexican FRS 23 is effective from 1 July 2020 until 30 June 2021, with early adoption permitted. The practical expedient offered under Interpretation to Mexican FRS 23 must be applied retrospectively if the entity received relief prior to electing to use the practical expedient.

26.

The adoption of Interpretation to Mexican FRS 23 had no effect on the Company's financial statements.

#### 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.

#### Improvements to Mexican FRS for 2020

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

(i) Mexican FRS C-16 Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) Mexican FRS D-4 Income taxes

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

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

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

(v) Mexican FRS D-5 Leases

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

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

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

b) Separating components of a lease

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

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

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

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

2. Fair value measurement

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

- Fair value measurement hierarchy for assets as at 31 December 2020:

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Derivative financial assets (Note 12):					
Foreign exchange forward contracts (USD)	31 December 2020	\$	- \$	- \$ 3,611,319	\$ -

As of 31 December 2020, cash is also held at fair value.

There were no transfers between Level 1 and Level 2 during 2020.

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

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Derivative financial assets (Note 12):					
Foreign exchange forward contracts (USD)	December 31, 2019	\$ 1,496,322	\$ -	\$ 1,496,322	\$ -

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

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

## 2.a Revenue from contracts with customers

### 2.a.1 Disaggregated revenue information

For the years ended 31 December 2020 and 2019, all of the income in the statement of comprehensive income corresponds to the sale of automotive parts for goods and services, both have a moment of recognition of income at a certain time.

For the years ended 31 December 2020 and 2019, other income mainly consists of the sale of waste, tools, administrative services, sale of fixed assets and others.

### 2.a.2 Contract balances

	2020	2019
Trade receivables (Note 2.b)	\$ 5,548,860	\$ 4,003,771

Trade receivables are non-interest bearing and are generally on terms of 45 to 90 days.

### 2.a.3 Refund liabilities

	2020	2019
Refund liabilities		
Arising from retrospective volume rebates	\$ 2,794,552	\$ 4,274,364

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#### 2.a.4 Performance obligations from contracts with customers

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

##### Automotive parts

The performance obligation is satisfied upon delivery of the automotive parts, and payment is generally due within 45 to 90 days from delivery. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

In some contracts, a one-year warranty beyond fixing the defects that existed at the time of sale is provided to customers. The warranty is accounted for as a separate performance obligation and a portion of the transaction price is allocated. The performance obligation for the warranty service is satisfied over the coverage period based on time elapsed.

##### Services

The performance obligation is satisfied at the time the services are rendered, and payment is generally due upon completion of the service and acceptance of the customer. In some contracts, short-term advances are required before the service is provided.

#### 2.b. Trade receivables

##### Trade receivables

As of 31 December 2020 and 2019, the accounts receivable is described below:

	2020	2019
Receivables from third-party customers	\$ 5,548,860	\$ 4,003,771
	<u>\$ 5,548,860</u>	<u>\$ 4,003,771</u>

Trade receivables are non-interest bearing and are generally on terms of 45 to 90 days.

The significant changes in the balances of trade receivables are disclosed in Note 2.a.2 while the information about the credit exposures are disclosed in Note 1h).

### 3. Cash

An analysis of cash as at 31 December 2020 and 2019 is as follows:

	2020	2019
Cash	\$ 37,680	\$ 63,807
Bank accounts in local currency	753,781	3,589,020
Bank accounts in foreign currency (USD)	59,211,630	16,980,411
Total non-restricted cash and cash	<u>\$ 60,003,091</u>	<u>\$ 20,633,238</u>

### 4.a. Financial assets and financial liabilities

#### 4.a.1 Financial assets

	2020	2019
Derivatives designated as hedging instruments:		
Foreign exchange forward contracts	\$ 3,611,319	\$ 1,496,322
Total financial assets at fair value	<u>3,611,319</u>	<u>1,496,322</u>
Debt instruments at amortized cost:		
Trade receivables (Note 2.b)	5,548,860	4,003,771
Total financial assets (*)	<u>5,548,860</u>	<u>4,003,771</u>
Total current	<u>\$ 9,160,179</u>	<u>\$ 5,500,093</u>

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

Derivatives designated as hedging instruments

Reflect the negative change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable future purchases in US dollars.

Debt instruments at amortized cost

Include trade receivables and receivables from related parties.

Other financial liabilities

	2020	2019
Other financial liabilities at amortized cost, other than interest-bearing loans and borrowings		
Trade payables	\$ 24,394,435	\$ 17,897,977
Total other financial liabilities	<u>24,394,435</u>	<u>17,897,977</u>
Total current	<u>\$ 24,394,435</u>	<u>\$ 17,897,977</u>

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#### 4.a.2 Hedging activities and derivatives

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed using derivative instruments are foreign currency risk.

The Company's risk management strategy and how it is applied to manage risk are explained in Note 4.a.5 below.

#### Derivatives designated as hedging instruments

##### Cash flow hedges

##### Foreign currency risk

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales and purchases in US dollar. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases.

The Company is holding the following foreign exchange forward contracts:

	Maturity					Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	
As at 31 December 2020:						
Foreign exchange forward contracts (highly probable forecast sales)						
Notional amount	\$ 358,033	\$ 545,808	\$ 540,805	\$ 357,755	\$ -	\$ 1,802,401
Average forward rate (MXN/USD)	22.20	22.20	22.20	22.20	-	22.20
As at 31 December 2019:						
Foreign exchange forward contracts (highly probable forecast sales)						
Notional amount	\$ 276,459	\$ 548,933	\$ 543,851	\$ 146,341	\$ -	\$ 1,515,584
Average forward rate (MXN/USD)	20.18	20.18	20.18	20.18	-	20.18

The impact of the hedging instruments on the statement of financial position is, as follows:

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
As at 31 December 2020				
Foreign exchange forward contracts	\$ 1,802,401	\$ 3,611,319	Other current financial assets	\$ 1,808,918
As at 31 December 2019				
Foreign exchange forward contracts	\$ 1,515,584	\$ 1,496,322	Other current financial assets	\$ 19,262

#### 4.a.3 Fair value

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

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

- Long-term variable-rate receivables/borrowings are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables.
- The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing model using present value calculations.

The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies. Some derivative contracts are fully collateralized, thereby eliminating both counterparty risk and the Company's own non-performance risk. As at 31 December 2020, the marked-to-market value of other derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

- The fair values of the Company's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2020 was assessed to be insignificant.

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

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Company also holds investments in debt and equity instruments and enters into derivative transactions.

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

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All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

#### Market risk

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

The sensitivity analyses in the following sections relate to the position as at 31 December in 2020 and 2019.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2020.

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

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

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2020 and 2019 including the effect of hedge accounting.

#### Interest rate risk

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

#### Foreign currency risk

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

The Company manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 12-month period for hedges of forecasted sales.

When a derivative is entered into for the purpose of being a hedge, the Company negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

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

At 31 December 2020 and 2019, the Company hedged 75% and 70%, for 9 and 12 months, respectively, of its expected foreign currency sales. Those hedged sales were highly probable at the reporting date. This foreign currency risk is hedged by using foreign currency forward contracts.

#### Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives. The impact on the Company's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax	Effect on equity
2020	+5%	\$ ( 2,757,329)	\$ 180,566
	-5%	2,757,329	( 180,566)
2019	+5%	\$ 3,467,566	\$ 74,816
	-5%	( 3,467,566)	( 74,816)

The movement in the pre-tax effect is a result of a change in the fair value of monetary assets and liabilities denominated in US dollars. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

The movement in equity arises from changes in US dollar borrowings (net of cash and cash equivalents). These movements will offset the translation of the US operations' net assets into Mexican peso.

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#### Credit risk

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

#### Trade receivables and contract assets

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

Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance obtained from reputable banks and other financial institutions.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than three years and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 4.a.1. The Company does not hold collateral as security.

The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment.

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

#### Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Counterparty credit limits are reviewed by the Company's Board of Directors on an annual basis. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Company's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2020 and 2019 is the carrying amounts as illustrated in Note 2.b except for derivative financial instruments.

#### Liquidity risk

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

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. Approximately 100% of the Company's debt will mature in less than one year at 31 December 2020 and 2019 based on the carrying value of borrowings reflected in the financial statements. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The Company has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

#### Excessive risk concentration

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

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

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

Year ended 31 December 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Derivatives	\$ 3,611,319	\$ 1,922,187	\$ 1,689,132	\$ -	\$ -	\$ 3,611,319
	\$ 3,611,319	\$ 1,922,187	\$ 1,689,132	\$ -	\$ -	\$ 3,611,319
Year ended 31 December 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Derivatives	\$ 1,496,322	\$ 803,547	\$ 692,775	\$ -	\$ -	\$ 1,496,322
	\$ 1,496,322	\$ 803,547	\$ 692,775	\$ -	\$ -	\$ 1,496,322

The financial derivative instruments disclosed in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

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

	1 January 2020	Foreign exchange movements and changes in fair value	31 December 2020
Derivatives	\$ 1,496,322	\$ 2,114,997	\$ 3,611,319
Total liabilities from financing activities	\$ 1,496,322	\$ 2,114,997	\$ 3,611,319

	1 January 2019	Cash flows, foreign exchange movements and changes in fair value	31 December 2019
Borrowings	\$ 11,809,740	\$ ( 11,809,740)	\$ -
Derivatives	1,231,976	264,346	1,496,322
Total liabilities from financing activities	\$ 13,041,716	\$ ( 11,545,394)	\$ 1,496,322

5. Related parties

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

a) An analysis of balances due from and to related parties as at 31 December 2020 and 2019 is as follows:

	2020	2019
Receivables:		
SMR Automotive Systems USA, Inc. (affiliate)	\$ 41,833,152	\$ 40,110,152
SMR Automotive Vision Systems México, S.A. de C.V. (affiliate)	13,851,308	14,586,659
SMR Automotive Brazil, Ltd. (affiliate)	1,406,857	3,894,708
SMP Automotive Alabama (affiliate)	1,226,446	2,038,904
SMP Automotive Systems México, S.A. de C.V. (affiliate)	163,835	155,513
Motherson Sumi Systems Bangalore (affiliate)	5,508	8,798
MSSL WH System (Thailand) Co. LTD. (affiliate)	-	2,650
	\$ 58,487,106	\$ 60,797,384

	2020	2019
Payables:		
Motherson Sumi Systems Ltd. (affiliate)	\$ 1,689,181	\$ 2,178,745
MSSL Mideast (FZE) Unit 1 (affiliate)	342,123	1,529,724
MSSL GB Ltd. (affiliate)	335,520	453,744
MSSL GB Ltd. (EUR) (affiliate)	177,945	1,705,804
MSSL Mideast (FZE) (affiliate)	37,597	430,028
Motherson Sumi Infotech & Designs Ltd. (affiliate)	24,936	1,722
Edcol Global PT Ltd. (affiliate)	15,175	-
MSSL GmbH (affiliate)	-	1,574,697
MSSL Japan Limited (affiliate)	-	455,771
SMR Automotive Australia PTY Ltd. (affiliate)	-	336,322
MSSL Wiring System, Inc. (affiliate)	-	139,137
Motherson Sumi Electric Wires (Noida) (affiliate)	-	1,419
	<u>\$ 2,622,477</u>	<u>\$ 8,807,113</u>

As at 31 December 2020 and 2019, balances receivable due from related parties consist of unsecured current accounts that bear no interest and are payable in cash within 30 days.

Accounts receivable due from related parties are all considered collectible. Accordingly, for the years ended 31 December 2020 and 2019, there was no expense related to the uncollectible of accounts receivable due from related parties.

As at 31 December 2020 and 2019, balances payable due to related parties consist of unsecured current accounts that bear no interest and are payable in cash within 60 days.

b) During the years ended 31 December 2020 and 2019, the Company had the following transactions with its related parties:

	2020	2019
Income:		
Sales of finished goods	\$ 410,697,792	\$ 467,839,928
	<u>\$ 410,697,792</u>	<u>\$ 467,839,928</u>
Cost of sale and expenses:		
Raw material purchases	\$ 53,518,778	\$ 69,620,017
Consumables	55,900	56,696
Management services	6,578,631	4,306,139
Others	179,688	178,347
	<u>\$ 60,332,997</u>	<u>\$ 74,161,199</u>

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#### 6. Recoverable taxes

An analysis of recoverable taxes as at 31 December 2020 and 2019 is as follows:

	2020	2019
Recoverable income tax	\$ 2,215,843	\$ -
Recoverable value added tax	6,265,353	3,238,923
	<u>\$ 8,481,196</u>	<u>\$ 3,238,923</u>

#### 7. Inventories

An analysis of inventories as at 31 December 2020 and 2019 is as follows:

	2020	2019
Raw materials at cost	\$ 35,213,751	\$ 44,445,170
Production in process at cost	10,495,945	9,462,501
Finished products at cost	10,736,430	21,297,672
	<u>56,446,126</u>	<u>75,205,343</u>
Impairment allowance:		
Net realizable value reserve	( 44,644)	( 633,021)
Allowances for obsolete inventories	( 6,416,839)	( 3,546,342)
Goods in transit	10,927,467	8,175,535
	<u>\$ 60,912,110</u>	<u>\$ 79,201,515</u>

The Company's inventory turnover rate is 58 days.

Variances in the balance of inventories between the years ended as at 31 December 2020 and 2019 are primarily due to:

Raw material and finished goods

In 2019, the Company received a higher number of orders from its customers, compared to the previous period, in view of the normal high production cycle, raw materials shows a decrease as of 31 December 2020 compared to the balance shown in that item as of 31 December 2019, while the balance of finished products shows a decrease in that same period.

## 8. Property, plant and equipment

a) An analysis of property, plant and equipment as at 31 December 2020 and 2019 is as follows:

	2020	2019	Annual depreciation rate
Components subject to depreciation:			
Building	\$ 28,668,416	\$ 28,668,416	5%
Machinery and equipment	21,182,911	22,159,057	10%
Computer equipment	3,313,668	3,308,188	30%
Transportation equipment	1,794,040	1,794,040	25%
Office furniture	1,918,334	1,918,334	5%
Office equipment	319,017	319,017	10%
Tools (factory equipment)	1,898,797	1,898,797	35%
	<u>59,095,183</u>	<u>60,065,849</u>	
Less:			
Accumulated depreciation	( 30,285,375)	( 26,681,033)	
	<u>28,809,808</u>	<u>33,384,816</u>	
Components not subject to depreciation:			
Land	7,342,588	7,342,588	
Construction in process	77,542	83,023	
	<u>7,420,130</u>	<u>7,425,611</u>	
Property, plant and equipment, net	<u>\$ 36,229,938</u>	<u>\$ 40,810,427</u>	

Depreciation expense for the years ended 31 December 2020 and 2019 was \$4,170,360 and \$4,522,055, respectively, which was recognized in profit and loss as part of cost of sales and operating expenses.

b) Items of machinery and equipment that have been fully depreciated as at 31 December 2020 amount to \$5,549,431

c) The Company sold property, plant and equipment for \$534,380 during 2020 (\$435,948 during 2019), which are presented within operating expense.

d) Construction projects in progress correspond to new production lines and are expected to be completed in a period not exceeding one year and are mainly made up of machinery and equipment in process. The amount to which construction projects in progress will amount is expected to be completed in a period not exceeding one year. As of 31 December 2020 and 2019, there are no commitments made for this project.

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9. Leases

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

The following are the amounts recognized in profit:

	2020	2019
Expense relating to leases of low-value assets (included in operating expenses)	\$ 314,781	\$ 130,445
Total amount recognized in profit	<u>\$ 314,781</u>	<u>\$ 130,445</u>

The Company had total cash outflows for leases of \$314,781 in 2020 (\$130,445 in 2019).

10. Other accounts payable and accrued expenses

The analysis of the most significant provision is presented as follows:

Type of provision	Balance at 1 January 2020	Increasing	Applications	Balance at 31 December 2020
Social security	\$ 3,322,890	\$ 24,106,321	\$ 24,868,548	\$ 2,560,663
Reserve of price	4,274,364	64,072,792	65,552,603	2,794,553
Salaries	6,119,540	105,067,839	105,024,048	6,163,331
Local taxes	2,445,946	4,495,050	4,504,242	2,436,754
Savings fund	498,932	12,196,229	12,200,558	494,603
Other	10,543,262	160,757,266	155,211,147	16,089,381
	<u>\$ 27,204,934</u>	<u>\$ 370,695,497</u>	<u>\$ 367,361,146</u>	<u>\$ 30,539,285</u>

Type of provision	Balance at 1 January 2019	Increasing	Applications	Balance at 31 December 2019
Social security	\$ 2,756,979	\$ 28,863,290	\$ 28,297,379	\$ 3,322,890
Reserve of price	5,660,077	18,917,858	20,303,571	4,274,364
Salaries	4,314,566	103,951,947	102,146,973	6,119,540
Local taxes	2,227,534	14,286,800	14,068,388	2,445,946
Savings fund	456,445	24,012,221	23,969,734	498,932
Other	14,378,469	161,024,409	164,859,616	10,543,262
	<u>\$ 29,794,070</u>	<u>\$ 351,056,525</u>	<u>\$ 353,645,661</u>	<u>\$ 27,204,934</u>

## 11. Foreign currency balances

a) The financial statements as at 31 December 2020 and 2019 include the following U.S. dollar denominated assets and liabilities:

	2020		2019	
Dollars:				
Assets	US\$	3,258,463	US\$	4,339,650
Liabilities		(494,043)		( 658,582)
Net asset position	US\$	2,764,420	US\$	3,681,068

b) The exchange rates used to translate the above amounts to Mexican pesos as at 31 December 2020 and 2019 were \$19.95 and \$18.84, respectively, per U.S. dollar. As at 20 May 2021, the date of issue of these financial statements, the exchange rate was \$19.81 pesos per U.S. dollar.

## 12. Derivative financial instruments

Derivative financial instruments exchange rate.

The Company is exposed to the exchange rate fluctuation between the Mexican peso and the US dollar when making salary and wage payments, as well as any other payment, this is the reason why the Board of Directors decided to approve the strategic coverage for forwards, with the purpose of reducing the risk of currency fluctuation in these transactions.

As of 31 December 2020, they had the following hedges on the exchange rate:

Counterparty: Banco Nacional de México, S.A.

Contract	Amount national	Date	Maturity	Underlying type	Exchange rate	Fair value
2007712185	\$ 174,920	17 March 2020	6 January 2021	USD	22.8676	\$ 517,122
2026610602	181,369	22 September 2020	6 April 2021	USD	22.0545	343,183
2026610605	180,822	22 September 2020	6 May 2021	USD	22.1212	340,707
2026610621	179,695	22 September 2020	6 July 2021	USD	22.2599	338,951
2026610636	178,626	22 September 2020	3 September 2021	USD	22.3931	334,132
2026611551	181,936	22 September 2020	5 March 2021	USD	21.9857	353,583
2026611564	180,287	22 September 2020	4 June 2021	USD	22.1868	339,220
2026611572	179,129	22 September 2020	6 August 2021	USD	22.3303	336,123
2026612529	183,113	22 September 2020	6 January 2021	USD	21.8444	354,006
2026612531	182,503	22 September 2020	5 February 2021	USD	21.9175	354,292
						<u>\$ 3,611,319</u>

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As of 31 December 2019, they had the following hedges on the exchange rate:

Counterparty: Banco Nacional de México, S.A.

Contract	Amount national	Date	Maturity	Underlying type	Exchange rate	Fair value
1914911582	\$ 197,582	29 May 2019	27 May 2020	USD	20.2448	\$ 186,502
1914910609	198,547	29 May 2019	27 April 2020	USD	20.1464	185,782
1914910605	199,443	29 May 2019	27 March 2020	USD	20.0559	187,047
1914910587	200,368	29 May 2019	27 February 2020	USD	19.9633	186,798
1914911560	201,360	29 May 2019	27 January 2020	USD	19.8649	187,013
1922810469	73,013	16 August 2019	13 July 2020	USD	20.5443	79,804
1922811462	73,328	16 August 2019	15 June 2020	USD	20.4561	79,957
1922811459	73,690	16 August 2019	15 May 2020	USD	20.3555	80,080
1922810447	74,397	16 August 2019	13 March 2020	USD	20.1621	80,625
1922810459	74,032	16 August 2019	13 April 2020	USD	20.2614	80,649
1922812438	74,726	16 August 2019	13 February 2020	USD	20.0734	81,007
1922810431	75,099	16 August 2019	13 January 2020	USD	19.9737	81,058
						<u>\$ 1,496,322</u>

The Company considers that its future payment transactions qualify as highly probable according to the terms required by accounting regulations.

The fair value of the forwards as of 31 December 2020 and 2019 resulted in the recognition of an asset (liability), respectively, and a credit (charge) in the comprehensive income account, which will be reclassified as an (expense) income in the same period and on the same line as it corresponds in the Net financing cost.

The estimated amounts related to financial derivative instruments reflect the reference of the volume acquired; however, they do not reflect the amounts at risk relative to future flows. Amounts at risk are generally limited to the unrealized profit or loss from the market valuation of such instruments, which could vary according to changes in the market value of the underlying currency, its volatility and the credit quality of the securities. counterparts.

The main obligation of the Company depends on the acquisition processes and the conditions established in each of the derivative financial instruments effective as of 31 December 2020 and 2019.

### 13. Net employee defined benefit liabilities

The valuation of labor obligations corresponding to remuneration plans at retirement (indemnities and seniority premiums), covers all the employees and is based on the years of service, the age and remuneration at the date of retirement. Below is a summary of the most relevant amounts relating to labor obligations:

a) The value of the net defined benefit as of 31 December 2020 and 2019 amounted to \$5,219,312 and \$2,248,646, respectively.

b) Below is a reconciliation between the present value of the net defined benefit and the fair value of the plan assets and the net defined benefit liability: recognized in the statement of financial position:

	Seniority premiums 31 December		Indemnities 31 December		Total 31 December	
	2020	2019	2020	2019	2020	2019
	Obligations for defined benefits OBD	\$ 1,337,393	\$ 1,087,829	\$ 3,881,919	\$ 1,160,817	\$ 5,219,312

c) Net periodic benefit cost:

	Seniority premiums 31 December		Indemnities 31 December		Total 31 December	
	2020	2019	2020	2019	2020	2019
	Financial cost	\$ 67,155	\$ 59,582	\$ 207,187	\$ 69,650	\$ 274,342
Labor cost of the current service	191,980	116,812	349,101	114,313	541,081	231,125
Total	\$ 259,135	\$ 176,394	\$ 556,288	\$ 183,963	\$ 815,423	\$ 360,357

	Seniority premiums 31 December		Indemnities 31 December,		Total 31 December	
	2020	2019	2020	2019	2020	2019
	Analysis of remeasurements of net defined benefit liability /(asset) recognized in OCI:					
Net actuarial earning or loss	\$ 1,276,406	\$ 434,943	\$ 2,164,814	\$ 18,818	\$ 3,441,220	\$ 453,761
Total	\$ 1,276,406	\$ 434,943	\$ 2,164,814	\$ 18,818	\$ 3,441,220	\$ 453,761

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

	2020	2019
Discount rate	6.23%	7.13%
Wage race rate	7.00%	7.00%
Minimum wage increase	4.00%	4.00%

As at 31 December 2020 and 2019, the Company does not have any material contingent liabilities for employee benefits.

#### 14. Short-term employee benefits

a) Short-term employee benefits

As at 31 December 2020 and 2019, the Company has recognized accrued liabilities for short-term employee benefits. An analysis is as follows:

	2020	2019
Employee profit sharing payable	\$ 4,752,006	\$ 5,391,135
	\$ 4,752,006	\$ 5,391,135

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b) Employee Profit Sharing (EPS)

An analysis of employee profit sharing for the years ended 31 December 2020 and 2019 is as follows:

	2020	2019
Current employee profit sharing	\$ 5,737,415	\$ 5,391,135
Deferred employee profit sharing	( 274,618)	( 652,533)
Deferred employee profit sharing in OCI	29,115	2,385
Total employee profit sharing	<u>\$ 5,491,912</u>	<u>\$ 4,740,987</u>

c) Deferred Employee Profit Sharing (EPS)

An analysis of the Company's deferred employee profit sharing (EPS) liabilities as at 31 December 2020 and 2019 is as follows:

	2020	2019
Deferred EPS assets		
Provisions	\$ 14,476,633	\$ 15,920,910
Property, plant and equipment, net	15,979,425	14,265,593
Reserve of price provisions	2,794,552	4,274,364
Allowance for obsolete inventories	6,416,839	3,546,342
Retirement benefits and termination benefits	5,219,312	2,248,646
	<u>44,886,761</u>	<u>40,255,855</u>
Deferred EPS liabilities		
Derivative financial instruments	( 3,611,319)	( 1,496,322)
Prepaid expenses	( 748,445)	( 687,566)
	<u>( 4,359,764)</u>	<u>( 2,183,888)</u>
	40,526,997	38,071,967
EPS rate	10%	10%
Deferred employee profit sharing asset, net	<u>\$ 4,052,700</u>	<u>\$ 3,807,197</u>

Based on financial and tax projections prepared by Company management, the Company has determined that its net deferred employee profit sharing asset will be realized. Current and deferred employee profit sharing are presented as part of cost of sales, operating costs and OCI in the comprehensive income.

## 15. Equity

a) The Company's share capital is variable, with an authorized fixed minimum of \$50,000 (nominal amount). As of 31 December 2020 and 2019, the share capital is represented by 114,097,957 registered shares, fully subscribed and paid as shown:

Shares (*)	Description	Amount
50,000	Serie "A" fixed part no withdrawal right	\$ 50,000
114,047,957	Serie "B" variable part no withdrawal rights	114,047,957
<u>114,097,957</u>	Capital stock	<u>\$ 114,097,957</u>

(\*) Common shares with a par value of \$1.00 each, fully subscribed and paid.

b) In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. As at 31 December 2020 and 2019, the Company has not created such a reserve.

c) There was no dividend decree between the closing date of the accompanying financial statements and the date of authorization to issue them.

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

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

## 16. Income tax

On 30 October 2019, the Mexican Congress approved the 2020 Tax Reform applicable for the whole country, which became effective on 1 January 2020. Among other changes, the reform establishes a net interest expense deduction limitation equal to 30% of an entity's adjusted tax profit. This limitation is only applicable when the amount of the aggregate interest payments of the members of a corporate group in Mexico exceeds 20 million Mexican pesos. Non-deductible interest that exceeds this threshold may be carried forward in the following 10 years.

### a) Income tax

The Mexican Income Tax Law (MITL) establishes a corporate income tax rate of 30% for fiscal years 2020 and 2019.

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

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

b) Employee Profit Sharing (EPS)

The MITL establishes that entities are to calculate their EPS on the basis of their taxable earnings for the year determined for income tax purposes, plus or minus the effects of certain adjustments specified in the MITL.

c) An analysis of income tax recognized in profit for the years ended 31 December 2020 and 2019 is as follows:

In 2020, the Company determined a tax profit of \$44,687,638 (\$58,903,870 in 2019). The tax result differs from the accounting result, mainly for those items that accumulate over time and are deducted differently for accounting and tax purposes, for the recognition of the effects of inflation for tax purposes, as well as those items that only affect the accounting or fiscal result.

	2020	2019
Current Income tax	\$ 13,406,292	\$ 16,405,442
Deferred income tax	( 854,087)	( 2,038,583)
Income tax	<u>\$ 12,552,205</u>	<u>\$ 14,366,859</u>

Other Comprehensive Income (OCI):

	2020	2019
Deferred taxes related to items recognized in other comprehensive income during the year		
Derivative financial instruments	\$ 634,499	\$ 79,304
Remeasurements of net defined benefit liability	( 547,154)	( 72,148)
Deferred tax recognized in OCI	<u>\$ 87,345</u>	<u>\$ 7,156</u>

(\*) Deferred income tax is calculated on a 53% deduction.

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

	2020	2019
Deferred tax assets:		
Provisions	\$ 14,476,635	\$ 15,920,910
Property plant and equipment, net	15,979,425	14,265,593
Reserve of price provisions	2,794,552	4,274,364
Allowance for obsolete inventories	6,416,839	3,546,342
Retirement benefits and termination benefits	5,219,312	2,248,646
Current employee profit sharing	5,737,415	5,391,135
	<u>50,624,178</u>	<u>45,646,990</u>
Deferred tax liabilities:		
Deferred employee profit sharing	( 4,052,700)	( 3,807,197)
Derivative financial instruments	( 3,611,319)	( 1,496,322)
Prepaid expenses	( 748,446)	( 687,566)
	<u>( 8,412,465)</u>	<u>( 5,991,085)</u>
	42,211,713	39,655,905
Income tax rate	30%	30%
Deferred income tax asset net	<u>\$ 12,663,514</u>	<u>\$ 11,896,772</u>

The estimate for deferred income tax assets covers 100% of the assets arising from the provisions.

A reconciliation of net deferred taxes is as follows:

	2020	2019
Beginning balance as at 1 January	\$ 11,896,772	\$ 9,865,345
Income tax recognized in the income statement	854,087	2,038,583
Income tax recognized in OCI	( 87,345)	( 7,156)
Ending balance as at 31 December	<u>\$ 12,663,514</u>	<u>\$ 11,896,772</u>

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

	2020	2019
Income before income tax	\$ 38,294,054	\$ 47,673,869
Plus/(less):		
Annual inflation adjustment	( 744,531)	( 452,899)
Non-deductible expenses	2,304,746	2,776,511
Other	1,986,414	( 2,107,951)
Income before income tax	<u>41,840,683</u>	<u>47,889,530</u>
Statutory income tax rate	30%	30%
Total income tax	<u>12,552,205</u>	<u>14,366,859</u>
Effective income tax rate	<u>33%</u>	<u>30%</u>

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17.a. Analysis of cost of sales and operating expenses

An analysis of the Company's cost of sales and relevant operating expenses recognized in the statement of comprehensive income by function as at 31 December 2020 and 2019 is as follows

	2020	2019
Cost of material sold	\$ 206,691,630	\$ 211,178,578
Wages and salaries	113,426,792	135,607,283
Incoming freights	20,539,554	23,136,460
Bus hire and conveyance	12,591,539	14,690,097
Professional and legal expense	12,272,915	6,990,228
Freight outwards	11,792,382	14,926,012
Employees' Statutory Profit Sharing (EPS)	4,261,870	5,391,135
Depreciation	4,170,359	4,522,055
Repairs, maintenance and consumables	3,497,389	5,134,319
Other expenses	2,406,927	2,267,318
Other staff cost and welfare expense	2,678,675	2,950,641
Insurance cost	1,194,524	974,750
Security expenses	936,933	781,961
Electricity and power expenses	885,750	1,106,063
Computer and software expenses	327,722	442,309
Raffles (material revision)	127,856	1,161,126
Traveling expenses	85,012	1,038,020
Deferred of EPS	( 274,618)	( 652,533)
Total	<u>\$ 397,613,211</u>	<u>\$ 431,645,822</u>

17.b. Analysis of net financing cost

An analysis of the Company's net financing cost recognized in the statement of comprehensive income as at 31 December 2020 and 2019 is as follows:

	2020	2019
Interest income	\$ -	\$ 29,432
Interest expense	-	( 127,757)
Foreign exchange gain, net	7,303,460	38,944
Total registered in the year	<u>\$ 7,303,460</u>	<u>\$ ( 59,381)</u>

## 18. Other components of equity

The effects of income tax derived from OCI movements of the period are shown as follows:

2020	Opening balances	OCI before tax	Deferred		Net OCI
			Income tax 30%	EPS 10%	
Valuation of cash flow hedges	\$ 897,793	\$ 2,114,997	\$ ( 634,499)	\$ ( 211,500)	\$ 2,166,791
Remeasurement on actuarial gains and losses (*)	357,262	(3,441,220)	547,154	182,385	(2,354,419)
Total other comprehensive income	\$ 1,255,055	\$ (1,326,223)	\$ ( 87,345)	\$ ( 29,115)	\$ ( 187,628)

2019	Opening balances	OCI before tax	Deferred		Net OCI
			Income tax 30%	EPS 10%	
Valuation of cash flow hedges	\$ 739,185	\$ 264,347	\$ ( 79,304)	\$ ( 26,435)	\$ 897,793
Remeasurement on actuarial gains and losses (*)	1,913,969	(1,652,905)	72,148	24,050	357,262
Total other comprehensive income	\$ 2,653,154	\$ (1,388,558)	\$ ( 7,156)	\$ ( 2,385)	\$ 1,255,055

(\*) The deferred income tax and deferred of EPS is calculated considering the 53% of deduction.

## 19. Contingencies and commitments

a) Enacted changes made to the Mexican Federal Labor Law that came into effect on 1 December 2012 could have an effect on the Company's financial position. The effects of these changes may vary from a disclosure in the financial statements to the recognition of an additional liability for employee profit sharing or other liabilities related to employee benefits. As at 31 December 2020, the Company has evaluated the effects that the changes in the Labor Law may have on its financial information and has concluded that the changes have had no effect as at 31 December 2020. However, this situation may change in the future and so the Company will continue assessing the effects of the changes to the law in the years to come.

b) In accordance with the MITL, companies that carry out transactions with related parties are subject to tax restrictions and obligations with respect to the determination of the prices charged, since such prices should be similar to the prices that would have been used with or between independent parties in comparable transactions.

Should the tax authorities review and reject the Company's intercompany pricing, they may demand payment of the omitted taxes, plus restatements and surcharges, as well as fines for amounts of up to 100% of the restated omitted taxes.

As of 31 December 2020, the Company has the commitment regarding to the derivative financial instruments (See Note 12).

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20. Subsequent event

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

George Chambers  
Legal Representative