

SMR Hyosang Automotive Ltd.

Financial statements
for the years ended March 31, 2021 and 2020
with the independent auditor's report

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Independent auditor's report

The Shareholder and Board of Directors SMR Hyosang Automotive Ltd.

Opinion

We have audited the accompanying financial statements of SMR Hyosang Automotive Ltd. (the "Company"), which comprise the statements of financial position as of March 31, 2021 and 2020, and the statements of income, statements of changes in equity and statements of cash flows for the years 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 the Company as of March 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea ("KGAAP").

Basis for opinion

We conducted our audits in accordance with Korean Auditing Standards ("KGAAS"). 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 ethical requirements that are relevant to our audits of the financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 these financial statements in accordance with KGAAP, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with KGAAS 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 KGAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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



May 20, 2021

This audit report is effective as of May 20, 2021, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

SMR Hyosang Automotive Ltd.

Financial statements
for the years ended March 31, 2021 and 2020

“The accompanying financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Company.”

Chang Gyun Han
Chief Executive Officer
SMR Hyosang Automotive Ltd.

SMR Hyosang Automotive Ltd.
Statements of financial position
as of March 31, 2021 and 2020

(Korean won)

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	₩ 3,080,728,401	₩ 1,963,360,090
Trade receivables, net (Note 17)	13,798,546,218	15,339,177,581
Bad debts	(3,110,498,579)	(3,110,200,955)
Other receivables (Note 17)	615,717,594	1,620,865,856
Accrued income	-	20,837,814
Prepaid expenses	40,865,373	43,948,102
Deferred tax assets (Note 10)	735,670,140	721,475,402
Inventories, net (Note 3)	<u>4,304,589,792</u>	<u>4,972,434,105</u>
Total current assets	19,465,618,939	21,571,897,995
Non-current assets:		
Property, plant and equipment, net (Note 4)	32,318,397,497	33,642,508,581
Guarantee deposits	122,260,000	364,420,000
Deferred tax assets (Note 10)	<u>281,173,850</u>	<u>262,538,412</u>
Total non-current assets	<u>32,721,831,347</u>	<u>34,269,466,993</u>
Total assets	<u>₩ 52,187,450,286</u>	<u>₩ 55,841,364,988</u>
Liabilities		
Current liabilities:		
Trade payables (Notes 6 and 17)	₩ 10,292,937,250	₩ 9,429,526,537
Other payables (Notes 6 and 17)	1,245,620,063	1,479,856,700
Withholdings	24,888,826	21,678,992
Accrued expenses	382,857,283	442,396,770
Income tax payable	206,714,591	31,619,249
Provisions (Note 7)	109,665,976	223,799,482
Short-term borrowings (Note 5)	5,000,000,000	10,000,000,000
Current portion of finance lease liabilities (Note 8)	<u>187,455,337</u>	<u>434,726,469</u>
Total current liabilities	17,450,139,326	22,063,604,199
Non-current liabilities:		
Long-term guarantee deposits received	562,000,000	560,500,000
Provision for severance and retirement benefits, net (Note 9)	149,016,218	30,828,898
Finance lease liabilities (Note 8)	<u>9,137,178</u>	<u>196,592,515</u>
Total non-current liabilities	<u>720,153,396</u>	<u>787,921,413</u>
Total liabilities	<u>18,170,292,722</u>	<u>22,851,525,612</u>
Equity:		
Capital stock (Note 12):		
Common stock	450,000,000	450,000,000
Retained earnings (Note 13):		
Legal reserve	1,503,000,000	1,503,000,000
Discretionary reserve	250,000,000	250,000,000
Unappropriated retained earnings	<u>31,814,157,564</u>	<u>30,786,839,376</u>
Total equity	<u>34,017,157,564</u>	<u>32,989,839,376</u>
Total liabilities and equity	<u>₩ 52,187,450,286</u>	<u>₩ 55,841,364,988</u>

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

SMR Hyosang Automotive Ltd.
Statements of income
for the years ended March 31, 2021 and 2020

(Korean won)

	2021	2020
Sales (Note 17)	₩ 68,615,098,039	₩ 89,018,830,463
Cost of sales (Notes 17)	65,042,122,336	83,492,488,891
Gross profit	3,572,975,703	5,526,341,572
Selling and administrative expenses (Notes 14)	2,989,651,123	3,180,163,757
Operating profit	583,324,580	2,346,177,815
Non-operating income:		
Interest income	25,349,402	30,546,560
Gain on foreign currency transactions	343,578,606	562,224,957
Gain on foreign currency translation	40,603,638	135,749,476
Gain on derivatives transactions	-	2,655,646
Others	1,278,258,965	1,251,360,167
	1,687,790,611	1,982,536,806
Non-operating expense:		
Interest expenses	417,960,477	491,103,572
Loss on foreign currency transactions	457,513,008	389,841,165
Loss on foreign currency translation	61,741,225	13,621,273
Loss on derivatives transactions	-	2,099,182
Others	12,296,929	55,062,671
	949,511,639	951,727,863
Profit before income taxes	1,321,603,552	3,376,986,758
Income tax expense (Note 10)	294,285,364	721,038,113
Net income	₩ 1,027,318,188	₩ 2,655,948,645

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

SMR Hyosang Automotive Ltd.
Statements of changes in equity
for the years ended March 31, 2021 and 2020

(Korean won)

	<u>Capital stock</u>	<u>Retained earnings</u>	<u>Total</u>
As of April 1, 2019	₩ 450,000,000	₩ 29,883,890,731	₩ 30,333,890,731
Net income	-	2,655,948,645	2,655,948,645
As of March 31, 2020	<u>₩ 450,000,000</u>	<u>₩ 32,539,839,376</u>	<u>₩ 32,989,839,376</u>
As of April 1, 2020	₩ 450,000,000	₩ 32,539,839,376	₩ 32,989,839,376
Net income	-	1,027,318,188	1,027,318,188
As of March 31, 2021	<u>₩ 450,000,000</u>	<u>₩ 33,567,157,564</u>	<u>₩ 34,017,157,564</u>

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

SMR Hyosang Automotive Ltd.
Statements of cash flows
for the years ended March 31, 2021 and 2020

(Korean won)

	2021	2020
Cash flows from operating activities:		
Net income	₩ 1,027,318,188	₩ 2,655,948,645
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities :		
Severance retirement benefits	378,420,852	197,704,571
Depreciation	2,549,896,184	2,412,667,888
Warranty expenses	101,807,545	57,546,275
Bad debts expenses	297,624	719,284
Loss(gain) on foreign currency translations, net	21,137,587	(122,128,203)
Gain on disposal of property, plant and equipment, net	(2,904,874)	(19,221,615)
Loss on valuation of inventories	16,861,711	-
Changes in operating assets and liabilities:		
Trade receivables	1,519,222,788	7,436,736,283
Other receivables	1,005,148,262	(744,000,632)
Accrued income	20,837,814	(20,837,814)
Prepaid expenses	3,082,729	776,146
Deferred tax assets	(32,830,176)	124,812,940
Value added tax payment		
Inventories	650,982,602	1,383,908,949
Trade payables	863,681,701	(5,099,349,267)
Other payables	(126,931,637)	(252,686,855)
Withholdings	3,209,834	(42,581,398)
Accrued expenses	(59,539,487)	(14,272,022)
Long-term finance lease liabilities	(434,726,469)	(510,705,771)
Current tax liabilities	175,095,342	(970,186,032)
Provisions	(215,941,051)	(650,065,369)
Payment of severance and retirement benefits	(30,233,532)	(53,078,329)
Severance and retirement benefits deposits	(230,000,000)	(210,000,000)
Others	-	291,100,016
Net cash provided by (used in) operating activities	<u>7,203,893,537</u>	<u>5,852,807,690</u>
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment	3,780,350	505,524,859
Decrease in guarantee deposits	242,160,000	182,184,000
Increase in guarantee deposits received	1,500,000	218,500,000
Acquisition of property, plant and equipment	(1,333,965,576)	(6,018,552,739)
Net cash used in investing activities	<u>(1,086,525,226)</u>	<u>(5,112,343,880)</u>
Cash flows from financing activities:		
Increase in short-term borrowings	-	10,000,000,000
Decrease in short-term borrowings	(5,000,000,000)	(10,000,000,000)
Net cash used in financing activities	<u>(5,000,000,000)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	1,117,368,311	740,463,810
Cash and cash equivalents as of April 1, 2020 and 2019	1,963,360,090	1,222,896,280
Cash and cash equivalents as of March 31, 2021 and 2020	<u>₩ 3,080,728,401</u>	<u>₩ 1,963,360,090</u>

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

1. Corporate information

SMR Hyosang Automotive Ltd. (the "Company") was incorporated in January 1989, under the laws of the Republic of Korea to engage in the manufacture and distribution of automotive rear mirrors and other related auto parts.

The Company is wholly owned by SMR Automotive Modules Korea Ltd. (formerly, SMR Poong Jeong Automotive Mirrors Korea Ltd.) of the Republic of Korea, which purchases a substantial portion of the Company's products.

2. Summary of significant accounting policies

The Company prepares statutory financial statements in Korean in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea ("KGAAP"). The accompanying financial statements have been translated into English from Korean financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's report thereon, Korean version, which is used for regulatory reporting purposes, shall prevail. The principal accounting policies applied in the preparation of these financial statements are set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash without significant transaction costs which are subject to an insignificant risk of changes in value.

Financial Assets

Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments.

Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts in consideration of the estimated losses that may arise from non-collection of its receivables. The estimate of losses, if any, is based on a review of the aging and current status of the outstanding receivables.

Impairment of assets

When the recoverable amount of an asset is less than its carrying amount due to obsolescence, physical damage or abrupt decline in the market value of the asset, the decline in value, if material, is deducted from the carrying amount and recognized as an asset impairment loss in the current year. If, in a subsequent year, the recoverable amount exceeds the carrying amount because of an event occurring after the impairment was recognized, the previously recognized impairment loss is credited to the extent of carrying amount net of depreciation, had no impairment loss been recognized for the assets in prior years, except for available-for sale securities, for which reversal is limited to the extent of previously recognized impairment loss amount.

Property, plant and equipment

Property, plant and equipment are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Assets that were revalued in accordance with the previous Korean Assets Revaluation Law were revalued and stated at fair value less accumulated depreciation.

2. Summary of significant accounting policies (cont'd)

Expenditures incurred after the acquisition or completion of assets are capitalized only when it is probable that future economic benefits associated with the item will flow to the Company, which includes the enhancement of the value of the related assets over their recently appraised value or extension of the useful life of the related assets, and the fair value for the related cost can be reliably measured. All other routine maintenance and repairs are charged to expense as incurred.

Property, plant and equipment are stated at acquisition cost, net of accumulated depreciation calculated based on the following depreciation method and estimated useful lives:

	<u>Estimated useful lives</u>	<u>Depreciation method</u>
Buildings	30 ~ 40 years	Straight-line method
Structures	15 years	Straight-line method
Tooling	4 years	Straight-line method
Machinery and equipment, Vehicles, furniture and fixtures	6 years	Straight-line method

Provision for Severance Benefits

The Company operates a defined benefit plan ("DB plan"), and in accordance with the Company employees benefit policy, it establishes the provision for severance and retirement benefits for employees terminating their employment with at least one year of service based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision is determined based on the amount that would be payable assuming all employees were to terminate their employment as of the reporting date.

The Company's defined benefit retirement pension is administered by Industrial Bank of Korea (IBK), and the liability for retirement benefits under the defined benefit plan is presented as the sum of the provision for severance and retirement benefits and accrued defined benefit obligations less the plan's assets at the end of the reporting period. If the plan assets amount exceeds the sum of the provision for severance and retirement benefits and accrued defined benefit obligation, the excess amount is recorded as investment assets.

In addition, the Company operates a defined contribution plan ("DC plan"), and the obligation to pay contributions to the DC plan is recognized in cost as retirement benefit, except when included in the cost of the asset on the payment date. For unpaid contributions, the amount is recognized as a liability, and for overpaid contributions, the amount is recognized as future payment reduction or the cash-backed asset.

Revenue Recognition

Revenue from sale of goods is recognized when significant risks and rewards of ownership of goods have passed to the buyer, usually on delivery of the goods. Other revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at each reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Deferred Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. Deferred income taxes are provided using the liability method for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse, and are classified as current or non-current, respectively, based on the classification of the related asset or liability.

2. Summary of significant accounting policies (cont'd)

in the statement of financial position. In addition, current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity (Note 10).

In establishing the appropriate income tax valuation allowances, the Company assesses the realizability of its net deferred tax assets, and based on all available evidence, both positive and negative, determines whether it is highly probable that the net deferred tax assets or a portion thereof will be realized.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related asset or liability for financial reporting or the expected reversal date of the temporary difference for those with no related asset or liability such as loss carry forwards and tax credit carry forwards. The deferred tax amounts are presented as a net current asset or a liability and net non-current asset or liability.

Basic Earning per share

Basic earnings per share from continuing operations and basic earnings per share are computed by dividing net income from continuing operations and net income, respectively, by the weighted-average number of shares of common stock outstanding during the year.

Derivatives

Derivative financial instruments are presented as assets or liabilities valued principally at the fair value of the rights or obligations associated with the derivative contracts. The unrealized gain or loss from a derivative transaction with the purpose of hedging the exposure to changes in the fair value of a recognized asset or liability or unrecognized firm commitment is recognized in net income. For a derivative instrument with the purpose of hedging the exposure to the variability of cash flows of a recognized asset or liability or a forecasted transaction, the hedge-effective portion of the derivative instrument's gain or loss is deferred as other comprehensive income in equity.

Embedded derivatives are treated as derivative instruments and are recorded at fair value, if the economic characteristics and risk associated with those embedded derivatives are not closely related to the hedging instruments and hybrid contracts are not recorded at fair value through profit or loss. Embedded derivatives are recorded at fair value and changes in fair value are charged/credited to profit/loss. Accounting treatments for embedded derivatives are reviewed only if there is a modification of the contract conditions which causes significant changes in cash flows.

Inventories

The quantities of inventories are determined using the perpetual method and periodic inventory count, while the costs of inventories are determined using the gross average method. Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense. Replacement cost is used for the estimate of net realizable value of raw materials.

When a decline in the value of inventory indicates that its cost exceeds market value, market value is the book value. And accordingly, loss on valuation of inventories for the current period added to the cost of sales is KRW 16,862 thousand, and KRW 9,392 thousand of loss on valuation of inventories is added to the sales cost in the previous year.

Provisions and contingent liabilities

Provisions are recognized when it is probable that an outflow of resources will occur due to a present obligation resulting from a past event, and the amount can be reliably estimated. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

2. Summary of significant accounting policies (cont'd)

Provisions are measured at the present value of the expenditures expected to be settled using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are reviewed at each report date and adjusted to reflect the current best estimate. The discount rate used is the original discount rate assuming that the discount rate does not change.

Finance Leases

A lease is accounted for as either a capital lease or an operating lease. A lease is recognized as a capital lease if it transfers substantially to the Company all the risks and rewards incidental to ownership of the leased asset (Note 8). Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments and recognized as finance lease assets and finance lease liabilities. Minimum lease payments, net of guaranteed residual value, for each period is allocated as repayments between interest expenses and lease liabilities. Interest expenses are calculated using effective-interest method.

Significant judgments and accounting estimates

The preparation of financial statements in accordance with KGAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Approval of financial statements

The issuance of the financial statements of the Company will be approved by the Board of Directors on June 28, 2021.

3. Inventories

Inventories as of March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Finished goods	₩ 2,420,612	₩ 2,722,811
Work-in-process	343,185	622,196
Raw materials	1,657,026	1,726,797
	4,420,823	5,071,804
Less: valuation allowance	(116,233)	(99,370)
	₩ 4,304,590	₩ 4,972,434

SMR Hyosang Automotive Ltd.
Notes to the financial statements
March 31, 2021 and 2020

4. Property, plant and equipment

Changes in property, plant and equipment for the years ended March 31, 2021 and 2020 are as follow (Korean won in thousands):

		2021							
	Beginning	Acquisition	Disposal	Depreciation	Reclassification	Ending	Acquisition Cost	Accumulated depreciation	
Land	₩ 10,935,110	₩ -	₩ -	₩ -	₩ -	₩ 10,935,110	₩ 10,935,110	₩ -	
Buildings	11,255,619	-	-	(448,972)	3,071,980	13,878,627	16,600,874	(2,722,247)	
Structures	31,208	-	-	(3,711)	-	27,497	55,677	(28,180)	
Machinery	4,331,987	-	(866)	(1,239,884)	1,101,460	4,192,697	13,966,399	(9,773,702)	
Vehicle	1	-	-	-	-	1	2,200	(2,199)	
Tooling	1,411,961	-	-	(732,433)	1,185,230	1,864,758	6,883,126	(5,018,368)	
Furniture and equipment	360,662	-	(10)	(124,896)	84,761	320,517	1,365,261	(1,044,744)	
Construction-in-progress	5,315,960	1,226,661	-	-	(5,443,431)	1,099,190	1,099,190	-	
Total	₩ 33,642,508	₩ 1,226,661	₩ (876)	₩ (2,549,896)	₩ -	₩ 32,318,397	₩ 50,907,837	₩ (18,589,440)	

		2020							
	Beginning	Acquisition	Disposal	Depreciation	Reclassification	Ending	Acquisition Cost	Accumulated depreciation	
Land	₩ 10,935,110	₩ -	₩ -	₩ -	₩ -	₩ 10,935,110	₩ 10,935,110	₩ -	
Buildings	11,625,217	-	(13,524)	(356,073)	-	11,255,620	13,528,894	(2,273,274)	
Structures	34,919	-	-	(3,711)	-	31,208	55,677	(24,469)	
Machinery	4,061,348	-	(469,403)	(1,156,823)	1,896,865	4,331,987	13,070,952	(8,738,965)	
Vehicle	1	-	-	-	-	1	2,200	(2,199)	
Tooling	1,893,431	-	-	(749,874)	268,404	1,411,961	5,697,896	(4,285,935)	
Furniture and equipment	484,640	-	(3,376)	(146,187)	25,585	360,662	1,312,482	(951,820)	
Construction-in-progress	2,327,490	5,179,324	-	-	(2,190,854)	5,315,960	5,315,960	-	
Total	₩ 31,362,156	₩ 5,179,324	₩ (486,303)	₩ (2,412,668)	₩ -	₩ 33,642,509	₩ 49,919,171	₩ (16,276,662)	

As of March 31, 2021, the value of the Company's land, as determined by the local government in Korea for property tax assessment purposes, amounts to ₩11,153 million (2020: ₩10,703 million).

As of March 31, 2021 and 2020, property, plant and equipment and inventories are insured against fire and other casualty losses for up to ₩62,777 million (2020: ₩43,983 million).

5. Short-term borrowings

Short-term borrowings as of March 31, 2021 and 2020 are as follows (Korean won in thousands):

Type	Creditors	Annual interest rate	2021	2020	Payment method
Operating funds	SMR Automotive Modules Korea Ltd.	4.60%	₩ 5,000,000	₩ 10,000,000	Repayment at maturity

6. Maturity analysis of trade payables and other payables

Trade payables and other payables as of March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
	Less than 3 months	3 to 6 months	Less than 3 months	3 to 6 months
Trade payables	₩ 10,292,937	₩ -	₩ 9,429,527	₩ -
Other payables	1,245,620	-	1,479,857	-
	<u>₩ 11,538,557</u>	<u>₩ -</u>	<u>₩ 10,909,384</u>	<u>₩ -</u>

7. Provisions

Provisions as of March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021			2020		
	Beginning balance	Net changes	Ending balance	Beginning balance	Net changes	Ending balance
Provision for sales warranty (*)	₩ 119,317	₩ (9,651)	₩ 109,666	₩ 228,175	₩ (108,858)	₩ 119,317
Provision for purchasing	104,482	(104,482)	-	588,144	(483,662)	104,482
	<u>₩ 223,799</u>	<u>₩ (114,133)</u>	<u>₩ 109,666</u>	<u>₩ 816,319</u>	<u>₩ (592,520)</u>	<u>₩ 223,799</u>

(*) As of March 31, 2021, the Company estimates the amount expected to be expensed in the future for warranty service based on the warranty period of 3 years and the historical experience rate and recognized as provision for sales warranty.

8. Finance lease liabilities

Details of machinery classified as finance lease as of March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
Acquisition cost	₩	3,967,195	₩	3,967,195
Less: accumulated depreciation		(3,325,997)		(2,911,553)
	<u>₩</u>	<u>641,198</u>	<u>₩</u>	<u>1,055,642</u>

8. Finance lease liabilities (cont'd)

Future minimum lease payments as of March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021		2020	
	Minimum lease payment	Present value	Minimum lease payment	Present value
No later than 1 year	₩ 192,824	₩ 187,455	₩ 446,103	₩ 434,726
Later than 1 year and no later than 5 years	9,400	9,137	202,067	196,593
	<u>₩ 202,224</u>	<u>₩ 196,592</u>	<u>₩ 648,170</u>	<u>₩ 631,319</u>

9. Severance and retirement benefits

Changes in provision for severance and retirement benefits for the years ended March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
As of April 1	₩ 1,614,360	₩ 1,656,472
Provision during the year	414,593	209,189
Payments during the year	(82,327)	(251,301)
	<u>1,946,626</u>	<u>1,614,360</u>
Presented net of:		
Insurance deposits	(1,797,610)	(1,583,531)
As of March 31	<u>₩ 149,016</u>	<u>₩ 30,829</u>

As of March 31, 2021, the Company estimates severance and retirement benefits payable to all employees amounting to ₩1,947 million (2020: ₩1,614 million) and records the corresponding amount as provision for severance and retirement benefits. Also, the Company funded 92% (2020: 98%) of severance and retirement benefits payable through severance insurance deposits.

Changes in the plan assets for the years ended March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
As of April 1	₩ 1,583,531	₩ 1,560,269
Employer contributions	230,000	210,000
Benefits paid	(52,093)	(186,738)
Interest	36,172	-
As of March 31	<u>₩ 1,797,610</u>	<u>₩ 1,583,531</u>

Plan assets as of March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Time deposits	₩ 1,797,610	₩ 1,583,531

As of March 31, 2021, the fair values of the plan assets are identical to their book values.

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10. Income tax expense

The major components of income tax expense for the years ended March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Current income taxes	₩ 327,115	₩ 596,225
Changes in deferred income taxes from temporary differences	(32,830)	124,813
Income tax expense	₩ 294,285	₩ 721,038

A reconciliation of profit before income taxes at the Korea statutory tax rate to income tax expenses at the effective income tax rate of the Company for the years ended March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Profit before income taxes	₩ 1,321,604	₩ 3,376,987
Tax at the statutory income tax rate	290,753	742,937
Adjustments:	3,532	(21,899)
Non-taxable expenses	61	7
Tax deductions	(20)	(20)
Others	3,491	(21,886)
Income tax expenses	₩ 294,285	₩ 721,038
Effective income tax rate	22.30%	21.40%

Significant changes in tax loss carryforwards, cumulative temporary differences and deferred income tax assets and liabilities for the years ended March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021					
				Deferred income taxes		
	Apr. 1	Net changes	Mar. 31	Current	Non-current	
Depreciation	₩ 1,175,777	₩ (46,730)	₩ 1,129,047	₩ -	₩ 248,390	
Warranty provision	223,799	(223,799)	-	-	-	
Loss from valuation of inventories	99,371	16,862	116,233	25,571	-	
Allowance for doubtful accounts	2,941,668	26,675	2,968,343	653,036	-	
Provision for severance benefits	1,601,111	345,515	1,946,626	-	428,258	
Insurance deposits	(1,583,531)	(214,079)	(1,797,610)	-	(395,474)	
Others	14,595	244,784	259,379	57,063	-	
	₩ 4,472,790	₩ 149,228	₩ 4,622,018	₩ 735,670	₩ 281,174	

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10. Income tax expense (cont'd)

	2020				
	Net			Deferred income taxes	
	Apr. 1	changes	Mar. 31	Current	Non-current
Depreciation	₩ 1,219,314	₩ (43,537)	₩ 1,175,777	₩ -	₩ 258,671
Warranty provision	228,175	(4,376)	223,799	49,236	-
Loss from valuation of inventories	89,978	9,393	99,371	21,862	-
Allowance for doubtful accounts	2,875,338	66,330	2,941,668	647,167	-
Provision for purchasing	588,143	(588,143)	-	-	-
Provision for severance benefits	1,607,251	(6,140)	1,601,111	-	352,244
Insurance deposits	(1,560,269)	(23,262)	(1,583,531)	-	(348,377)
Others	(7,808)	22,403	14,595	3,211	-
	<u>₩ 5,040,122</u>	<u>₩ (567,332)</u>	<u>₩ 4,472,790</u>	<u>₩ 721,476</u>	<u>₩ 262,538</u>

The future feasibility of deferred tax assets is assessed considering various factors including the Company's ability to generate taxable income during the period in which the temporary difference is realized, the overall economic environment and industry outlook. The Company reviews these elements periodically and recognizes deferred tax assets as it is probable that all deductible temporary differences will be realized as of the balance sheet date.

The gross balances of deferred tax assets and liabilities as of March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021			2020		
	Deferred tax assets	Deferred tax liabilities	Total	Deferred tax assets	Deferred tax liabilities	Total
Current	₩ 735,670	₩ -	₩ 735,670	₩ 752,928	₩ (31,452)	₩ 721,476
Non - current	676,648	(395,474)	281,174	610,915	(348,377)	262,538
	<u>₩ 1,412,318</u>	<u>₩ (395,474)</u>	<u>₩ 1,016,844</u>	<u>₩ 1,363,843</u>	<u>₩ (379,829)</u>	<u>₩ 984,014</u>

11. Commitments and contingencies

As of March 31, 2021, the Company has trade financing agreements and derivative contracts for up to ₩8,000 million and USD 500,000, respectively, with Industrial Bank of Korea.

12. Capital stock

The Company is authorized to issue 160 thousand shares with the par value per share of ₩5,000. As of March 31, 2021, the Company has issued 90,000 shares of common stock.

13. Statement of appropriation of retained earnings

The statements of appropriations of retained earnings of the Company for the years ended March 31, 2021 and 2020 are as follows (Korean won):

	2021	2020
Retained earnings before appropriations:		
Unappropriated retained earnings carried forward from the prior year	₩ 30,786,839,376	₩ 28,130,890,730
Net income	1,027,318,188	2,655,948,646
	<u>31,814,157,564</u>	<u>30,786,839,376</u>
Appropriations :		
Unappropriated retained earnings to be carried forward to the next year	₩ 31,814,157,564	₩ 30,786,839,376

The statement of appropriation of retained earnings for the year ended March 31, 2021 is scheduled to be approved on June 28, 2021, and the statement of appropriation of retained earnings for the year ended March 31, 2020 was approved on June 29, 2020.

14. Selling and administrative expenses

Selling and administrative expenses for the years ended March 31, 2021 and 2020, are as follows (Korean won in thousands):

	2021	2020
Salaries and wages	₩ 256,217	₩ 307,549
Exports expenses	317,717	384,008
Depreciation	109,486	139,655
Commissions	1,657,033	1,750,061
Supplies expenses	6,786	11,285
Warranty expenses	101,808	57,546
Freight expenses	394,074	389,045
Others	146,530	141,015
	<u>₩ 2,989,651</u>	<u>₩ 3,180,164</u>

15. Value added information

The "value added" items as defined by KGAAP, which are required to be disclosed by the Company for the years ended March 31, 2021 and 2020, are as follows (Korean won in thousands):

	2021	2020
Salaries and wages	₩ 7,717,448	₩ 10,861,455
Severance benefits	422,984	209,189
Employee benefits	893,231	1,053,287
Rental expenses	47,584	51,921
Taxes and dues	87,400	88,109
Depreciation	2,549,896	2,412,668
	<u>₩ 11,718,543</u>	<u>₩ 14,676,629</u>

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16. Supplementary cash flow information

Significant non-cash transactions for the years ended March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021	2020
Increase in other payables due to acquisition of property, plant and equipment	₩ 461,252	₩ 568,557
Reclassification of construction-in-progress	5,443,431	2,190,854

17. Related party transactions

As of March 31, 2021 and 2020, the Company's parent company is SMR Automotive Modules Korea Ltd. (percentage of ownership: 100%) and the ultimate parent company is MSSL Global Wiring Limited.

Other related parties of the Company are SMR Group related companies such as SMR Automotive Australia Pty Ltd.

Significant transactions with related parties for the years ended March 31, 2021 and 2020 are as follows (Korean won in thousands):

	2021			2020		
	Sales, etc.	Purchases, etc.	Borrowing	Sales, etc.	Purchases, etc.	Purchases, etc.
Parent company:						
SMR Automotive Modules Korea Ltd.	₩ 42,431,908	₩ 401,557	₩ 5,000,000	₩ 62,304,961	₩ 464,046	₩ 10,000,000
Other related parties:						
SMR Automotive Systems U.S.A Inc.	548,023	592-	-	35,999	-	-
SMR Automotive Systems India Ltd.	5,934,069	-	-	7,860,101	-	-
SMR Automotive Systems, France SA	1,637,464	575,767	-	3,077,364	706,508	-
SMR Automotive Mirror Technology, Hungary BT	2,995,448	-	-	3,942,346	-	-
SMR Automotive Mirrors UK Ltd.	3,020,739	450	-	3,999,220	-	-
SMR Automotive Yancheng Company Ltd.	2,817,927	36,545	-	1,426,648	43,994	-
SMR Automotive (Langfang) Co. Limited.	8,328,395	-	-	4,430,435	7,528	-
SMR Automotive Mirror Stuttgart GmbH	-	1,499,454	-	-	1,558,793	-
Others	1,500,135	100,270	-	1,745,907	128,072	-
	₩ 69,214,108	₩ 2,614,635	₩ 5,000,000	₩ 88,822,981	₩ 2,908,941	₩ 10,000,000

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Notes to the financial statements
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17. Related party transactions (cont'd)

Receivables and payables with related parties as of March 31, 2021 and 2020, are as follows (Korean won in thousands):

	2021			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Others (borrowings, etc.)
Parent company:				
SMR Automotive Modules Korea Ltd.	₩ 4,852,200	₩ -	₩ -	₩ 5,569,596
Other Related parties:				
SMR Automotive Systems U.S.A Inc.	157,655	-	-	-
SMR Automotive Systems India Ltd.	1,175,261	-	-	-
SMR Automotive Systems, France SA	741,675	-	517,693	-
SMR Automotive Mirror Technology, Hungary BT	442,411	-	-	-
SMR Automotive Mirrors UK Ltd.	881,999	-	-	-
SMR Automotive Yancheng Company Ltd.	204,761	-	-	-
SMR Automotive (Langfang) Co. Limited.	1,700,238	-	-	-
SMR Automotive Mirror Stuttgart GmbH	-	-	-	184,466
Others	328,181	-	-	11,169
	<u>₩ 10,484,381</u>	<u>₩ -</u>	<u>₩ 517,693</u>	<u>₩ 5,765,231</u>

	2020			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Others (borrowings, etc.)
Parent company:				
SMR Automotive Modules Korea Ltd.	₩ 2,426,090	₩ -	₩ -	₩ 10,570,224
Other Related parties:				
SMR Automotive Systems U.S.A Inc.	21,182	-	-	-
SMR Automotive Systems India Ltd.	1,781,514	-	-	-
SMR Automotive Systems, France SA	721,158	-	94,430	-
SMR Automotive Mirror Technology, Hungary BT	475,345	-	-	-
SMR Automotive Mirrors UK Ltd.	2,118,713	-	-	-
SMR Automotive Yancheng Company Ltd.	1,002,928	491,764	30,593	10,153
SMR Automotive (Langfang) Co. Limited.	3,156,579	251,463	-	-
SMR Automotive Mirror Stuttgart GmbH	-	-	-	227,298
Others	221,427	-	-	9,078
	<u>₩ 11,924,936</u>	<u>₩ 743,227</u>	<u>₩ 125,023</u>	<u>₩ 10,816,753</u>

18. Statement of comprehensive income

The Company's comprehensive income for the years ended March 31, 2021 and 2020 are equal to net income.

19. Uncertainty of the impact of Covid-19

In order to prevent the spread of Covid-19, a various prevention and controls measures, including restrictions on traveling are being implemented worldwide, and as a result, the global economy has been extensively affected. In addition, governments are implementing various support measures to address Covid-19.

The Company has prepared its financial statements with reasonable estimates of the impact of Covid-19. However, there are significant uncertainties in estimating the timing of the end of Covid-19 and the impact therefrom.