SAMVARDHANA MOTHERSON INNOVATIVE AUTOSYSTEMS DE MÉXICO, S.A. DE C.V.

Financial Statements for the Years Ended
December 31, 2020 and 2019, and
Independent Auditors' Report

russellbedford.mx

CEIME SERVICIOS, S.A. DE C.V.
Independent Auditors' Report and Financial Statements
for 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Director and Shareholders Meeting of
Samvardhana Motherson Innovative Autosystems de México S.A. de C.V.

Opinion

We have audited the financial statements of Samvardhana Motherson Innovative Autosystems de México S.A. de C.V., which comprise the statements of financial position as at December 31, 2020, and the statements of profit or loss, statements of changes in equity and statements of cash flows for the year ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the facts described in the next paragraphs, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, and its financial performance and its cash flows for the year ended in accordance with Mexican Financial Reporting Standards ("MFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Mexico, 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 the financial statements in accordance with Mexican Financial Reporting Standards ("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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 the International Standards on Auditing 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 the International Standards on Auditing, 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 Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Entity´s 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 Entity'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 Entity 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 of the entities 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 Company 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.

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

Other issues

These financial statements have been translated into English solely for the convenience of readers of this language. In all cases, where there are any disagreements between the English and Spanish versions, the Spanish version shall be considered authoritative and controlling.

The financial statements of Samvardhana Motherson Innovative Autosystems de México S.A. de C.V. for the year ending at December 31, 2019, were audited by another accountant who expressed a qualified opinion on September 09, 2020.

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

Russell Bedford Puebla, S. C.

José Ramón Camino Monroy
Certified Public Accountant (Mexico)
Puebla, Puebla,
March 12, 2021

SAMVARDHANA MOTHERSON INNOVATIVE AUTOSYSTEMS DE MÉXICO, S.A. DE C.V.
Statements of Financial Position
As at December 31, 2020 and 2019
(Amount in Mexican Pesos)

Assets	**Notes**	**2020**	2019
Current assets			
Cash and cash equivalents		**$ 17,506,561**	$ 13,334,415
Accounts receivables		**46,704,696**	57,796,189
Related parties	4	**2,138,698**	-
Inventories	6	**56,434,905**	45,330,728
Prepaid expenses		**843,561**	1,659,705
Recoverable taxes		**52,802,257**	40,744,629
Total current asset		**176,430,678**	158,865,666
Non-current assets			
Property, plant and equipment, net	5	**189,779,950**	190,819,688
Deferred income taxes	10	**19,243,910**	18,056,182
Deferred employee profit sharing	7	**4,269,771**	3,145,308
Total non-current assets		**213,293,631**	212,021,178
Total assets		**$ 389,724,309**	$ 370,886,844
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		**$ 4,168,568**	$ 2,736,967
Related parties	4	**29,246,259**	21,949,494
Other payables and accrued liabilities		**47,129,230**	25,872,889
Employee´s profit sharing	7	**781,460**	2,368,286
Taxes payable		**9,918,048**	2,093,089
Total current liabilities		**91,243,565**	54,950,110
Non-current liabilities			
Related parties	4	**91,224,220**	108,186,564
Net employee defined benefit liabilities	8	**3,824,153**	3,452,390
Total non-current liabilities		**95,048,373**	111,638,954
Total liabilities		**$ 186,291,938**	$ 166,589,064
Shareholders' equity			
Share Capital	9	**$ 249,356,591**	$ 249,356,591
Legal reserve		**958,624**	958,624
Retained earnings		**(46,882,844)**	(46,017,435)
Total shareholders' equity		**203,432,371**	204,297,780
Total liabilities and shareholders' equity		**$ 389,724,309**	$ 370,886,844

See accompanying notes to financial statement

SAMVARDHANA MOTHERSON INNOVATIVE AUTOSYSTEMS DE MÉXICO, S.A. DE C.V.

Statement of Comprehensive Income

As at December 31, 2020 and 2019

(Amount in Mexican Pesos)

	Notes	2020	2019
Revenue		**$ 257,947,861**	$ 311,711,944
Cost of services		**166,735,784**	250,069,973
Gross profit		**91,212,077**	61,641,971
General expenses		**74,902,001**	77,750,301
Operating profit (loss)		**16,310,076**	(16,108,330)
Comprehensive financial result			
Interest expense		**(6,541,338)**	(9,262,649)
Foreign exchange loss, net		**(12,946,338)**	10,537,884
		(19,487,676)	1,275,235
Loss before income taxes		**(3,177,600)**	(14,833,095)
Income taxes	10	**2,312,191**	35,778,808
Loss for the year		**$ (865,409)**	$ 20,945,713

See accompanying notes to financial statement

SAMVARDHANA MOTHERSON INNOVATIVE AUTOSYSTEMS DE MÉXICO, S.A. DE C.V.
Statement of Changes in Equity
As at December 31, 2020 and 2019
(Amount in Mexican Pesos)

	Share Capital	Legal reserve	Retained earnings	Total shareholders' equity
Balance as of December 31, 2018	$ 249,356,591	$ 958,624	$ (66,963,148)	$ 183,352,067
Profit of the year			20,945,713	20,945,713
Balance as of December 31, 2019	$ 249,356,591	$ 958,624	$ (46,017,435)	$ 204,297,780
Loss for the year			**(865,409)**	**(865,409)**
Balance as of December 31, 2020	**$ 249,356,591**	**$ 958,624**	**$ (46,882,844)**	**$ 203,432,371**

SAMVARDHANA MOTHERSON INNOVATIVE AUTOSYSTEMS DE MÉXICO, S.A. DE C.V.
Statement of Cash flow
As at December 31, 2020 and 2019
(Amount in Mexican Pesos)

		2020		2019
Operating activities				
Loss before income taxes	$	**(3,177,600)**	$	(14,833,095)
Depreciation of non-current assets		**12,514,506**		10,421,743
		9,336,906		(4,411,352)
Changes in operating assets and liabilities:				
Accounts receivables		**10,539,449**		102,114,793
Related parties		**5,158,067**		(49,507,845)
Inventories		**(11,104,177)**		15,405,739
Prepaid expenses		**816,144**		(1,168,020)
Tax recoverable		**(12,057,628)**		35,778,808
Accounts payable		**1,502,216**		(518,940)
Other payable and accrued liabilities		**20,041,278**		(582,640)
Tax payable		**7,824,959**		(36,528,792)
		22,720,308		64,993,103
Net cash used in operating activities		**32,057,214**		60,581,751
Investing activities				
Acquisition of fixed assets		**(10,922,724)**		(42,379,726)
Net cash used in investing activities		**(10,922,724)**		(42,379,726)
Financing activities				
Related parties		**(16,962,344)**		(22,801,807)
Net cash from financing activities		**(16,962,344)**		(22,801,807)
Net increase (decrease) in cash and cash equivalents		**4,172,146**		(4,599,782)
Cash and cash equivalents at the beginning of year		**13,334,415**		17,934,197
Cash and cash equivalents at the end of year	$	**17,506,561**	$	13,334,415

See accompanying notes to financial statement

1. Financial statement authorization

The financial statements were authorized for release on March 17, 2021, by Gabriel Rodriguez Gonzalez, Plant Manager of the Company.

According to the General Corporation Law, shareholders' can request review and correction of the financial statements after issuance. Financial statements will be summited to approval at the next shareholders' meeting.

2. Nature of operations and summary of significant accounting policies

a) Nature of operations

Samvardhana Motherson Innovative Autosystems de México S.A. de C.V. (the company), was incorporated on September 06, 1999, is a direct subsidiary of Samvardhana Motherson Reflectec Group Holdings Limited,the principal activity of the Company is the manufacture and sale of automotive parts

For practical purposes, the Company has defined its normal operating cycle runs from January 1 to December 31 of each year.

b) Subsequent events

Effects of global phenomena 2020

As of March 2020, the exchange markets that had prevailed in Mexico and in the world, experienced economic divergences, mainly highlighting the depreciation of the Mexican peso against the US dollar; the global oversupply of oil production caused its prices to experience a decrease of more than 50% during the first quarter of the year and the possible economic effects of the current global health situation.

Due to the foregoing, an economic slowdown is looming that could have a strong impact on the Company's business.

The behavior of the exchange rates of December 31, 2019 and the date of issue of the financial statements is as follows:

Date	Exchange rate	Increase
31/03/2020	24.2853	29%
31/12/2019	18.8452	-4%

SARS-CoV2 or COVID-19 Pandemic

On March 11, 2020, the World Health Organization called the outbreak of the SARS-CoV2 or COVID-19 virus a "pandemic" because of the number of cases of people infected with the coronavirus.

On March 23, 2020, the General Health Council recognized the SARS-CoV2 epidemic in Mexico as a serious disease requiring priority attention.

On March 27, 2020, the Federal Executive Branch declared several extraordinary actions in the affected regions of the entire national territory in the area of general health, to combat the serious disease of priority attention generated by the SARS-CoV2 virus (COVID-19); therefore, it established the following extraordinary actions to address the health emergency generated by the aforementioned virus:

The immediate suspension of non-essential activities from 30 March to 30 April 2020 is ordered, with the aim of mitigating the spread and transmission of the SARS-CoV2 virus in the community, in order to reduce the disease burden, its complications and death from COVID-19 in the population residing in the national territory.

Based on management's analysis of the impact of COVID-19 - SARS-COV-2, the Company did not experience material effects on its operations and revenues during 2020, or between the reporting date and the date of authorization of the accompanying financial statements, that would require any adjustments or disclosures related to the Pandemic

3. 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 preparation

The financial statements as of 31 December 2020 and 2019 have been prepared on a historical cost basis, except for available-for-sale assets and the carrying amounts of the underlying assets and liabilities that are designated as hedged items, all of which are measured at fair value.

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

As determined based on the National Consumer Price Index (NCPI) published by the National Statistical and Geographical Information Agency (INEGI), Mexico's annual inflation rate for 2020 and 2019 is as follows:

Cumulative inflation for 2019 (sum of inflation rates for 2017, 2018 and 2019)	Cumulative inflation for 2020 (sum of inflation rates for 2018, 2019 and 2020)	Inflation for the year (inflation rate for 2020)
13.17%	10.60%	2.65%

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.

For the translation of foreign subsidiaries and associates, the Company identifies the economic environment in which these entities operate and the translation is then performed based on the economic environment determined for each entity.

c. Revenue from contracts with customers

The principal activity of the Entity is: provide administrative services to related party.

Revenue from contracts with customers is recognized when control of the 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 services. The Company has generally concluded that it is the principal in its revenue arrangements, except for the agency services below, because it typically controls the goods or services before transferring them to the customer.

d. 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 of financial instruments – initial recognition and subsequent measurement.

e. Use of estimates

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

f. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position principally consist of petty cash balances in local and foreign currency, bank deposits, minted precious metals, and highly liquid investments subject to insignificant risk of changes in value with maturities of 90 days or less. Cash and cash equivalents are stated at fair value.

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

g. 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 receivable is classified as long-term.

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

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

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

h. 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. Unrecoverable prepaid expenses are recognized as impairment losses in profit or loss. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount of prepaid expenses to the extent that those changes are permanent in nature. These reversals are recognized in OCI.

i. Furniture and equipment

Furniture and equipment are recorded at acquisition cost.

Depreciation on furniture and equipment is calculated on the straight-line method over the estimated useful lives of the assets as determined by the Company's Management.

The annual depreciation rates of the principal asset classes are as follows:

Asset	Years
Machinery and equipment	5
Buildings	40
Packing	16
Leasehold improvements	20
Furniture and equipment	10
Telecommunication equipment	4
IT Equipment	4

j. Net employee defined benefit liabilities

The Company has not 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 has not recognized 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.

k. Employee profit sharing (PTU)

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

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

l. Income tax

a) 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.

b) Deferred income tax

Deferred income tax is calculated using the asset and liability method. Under this method, deferred taxes are recognized on all temporary differences between financial reporting and tax values of assets and liabilities, applying the income tax rate as of the date of the statement of financial position, or the enacted rate at the date of the statement of financial position that will be in effect when the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

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

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

4. 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:

Receivables:		**2020**		2019
Samvardhana Motherson Innovative Autosystems BV & Co. KG	**$**	**2,138,698**	$	-
	$	**2,138,698**	$	-

Payables:		**2020**		2019
Samvardhana Motherson Innovative Autosystems BV & Co. KG	**$**	**29,158,022**	$	21,949,494
SMP Automotive Systems de Mexico S.A. de C.V.		**88,237**		-
	$	**29,246,259**	$	21,949,494

Long term payables:		**2020**		2019
Samvardhana Motherson Innovative Autosystems BV & Co. KG	**$**	**91,224,220**	$	108,186,564
	$	**91,224,220**	$	108,186,564

b) The Company has entered into the following agreements with its related parties:

- In 2018, the Company received a loan totaling EUR. 5,790,210 from Samvardhana Motherson Innovative Autosystems BV & Co. KG. This financing bears annual interest of 5.60% percentage points and the loans mature on December 31, 2021. The proceeds of these loans will be used to finance the Company's working capital.

c) For the years ended December 31, 2020 and 2019, transactions were conducted with related parties as follows:

Sale of inventories:	**2020**
Samvardhana Motherson Innovative Autosystems BV & Co. KG	**$ 5,688,733**
SMP Automotive Systems de Mexico S.A. de C.V.	**9,361**
	$ 5,698,094

Technical assistance received:	**2020**
Samvardhana Motherson Innovative Autosystems BV and Co KG.	**$ 912,554**
MSSL GmbH	**823,582**
Motherson Sumi Infotech and Designs Ltd	**108,871**
	$ 1,845,007

Inventory purchases:	**2020**
Samvardhana Motherson Innovative Autosystems BV and Co KG.	**$ 84,259,370**
MSSL Tooling FZE	**1,545,121**
SMP Automotive Systems de Mexico S.A. de C.V.	**97,376**
	$ 85,901,867

Travel expenses:	**2020**
Motherson Air Travel Agency GmbH	**$ 19,032**
SMP Automotive Systems de Mexico S.A. de C.V.	**33,750**
	$ 52,782

Interest expense:	**2020**
Samvardhana Motherson Innovative Autosystems BV and Co KG.	**$ 6,707,749**
	$ 6,707,749

Purchase of fixed assets:	**2020**
Samvardhana Motherson Innovative Autosystems BV and Co KG.	**$ 30,454,778**
	$ 30,454,778

Maintenance of machinery:	**2020**
Samvardhana Motherson Innovative Autosystems BV and Co KG.	**$ 137,994**
	$ 137,994

5. Property, Plant and Equipment

a) An analysis of property, plant and equipment as at 31 December 2019 and 2018 is as follows:

Components subject to depreciation	2020		2019	
	Investment	**Accumulated depreciation**	Investment	Accumulated depreciation
Machinery and equipment	**144,471,895**	**65,574,157**	141,589,109	56,751,955
Buildings	**108,544,995**	**17,203,018**	108,544,995	14,487,096
Packing	**3,022,252**	**1,822,251**	3,022,252	1,522,251
Leasehold improvements	**951,274**	**488,790**	951,274	441,226
Furniture and equipment	**700,362**	**577,418**	652,086	556,550
Telecommunication equipment	**313,402**	**309,115**	313,402	299,155
IT Equipment	**275,496**	**210,639**	236,996	164,695
	258,279,676	**86,185,388**	255,310,114	74,222,926

Components not subject to depreciation	2020	2019
Construction in process	**10,545,102**	2,591,940
Land	**7,140,560**	7,140,560
Property, plant and equipment, net	**189,779,950**	190,819,688

Depreciation expense for the years ended 31 December 2020 and 2019 was Ps. 12,514,506 and Ps. 10,421,743, respectively, which was recognized in profit and loss as part of cost of sales and administrative expenses.

6. Inventories

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

	2020	2019
Raw materials at cost	**15,564,046**	20,071,498
Production in process at cost	**2,467,894**	3,581,229
Finished products at cost	**8,286,617**	8,335,871
Packing inventory	**20,892,473**	7,814,208
Impairment allowance	**(4,922,998)**	(3,422,998)
	42,288,032	36,379,808
Merchandise in transit	**14,146,873**	8,950,920
Inventories, net	**56,434,905**	45,330,728

For the years ended as at 31 December 2020 and 2019, the Company recognized impairment in the value of inventories of Ps. 4,922,998 and Ps. 3,422,998, respectively, which was recognized in the income statement as incurred. For the years ended as at 31 December 2020 and 2019, the Company reversed no portion of its previously recognized provision for impairment.

7. Employee profit sharing (PTU)

The Company calculates an employee´ profit sharing liability as 10% of its net taxable income which is included in expenses. The Company included $781,460 and $2,368,286 as accrued profit sharing payable as of December 31, 2020 and 2019, respectively.

Employee Profit Sharing (EPS)

PTU is due at the rate of 10% on taxable income, which differs from accounting income principally due to permanent differences such as the annual adjustment for inflation and staff costs not deductible for income tax and decreasing PTU paid in the year.

	2020	2019
Current Employee profit sharing	**$ 781,460**	$ 2,368,286
Deferred Employee profit sharing	**4,269,771**	3,145,308
	$ 5,051,231	$ 5,513,594

The amount of the PTU is included in administrative expenses.

Deferred Employee Profit Sharing (EPS)

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

	2020	2019
Deferred EPS assets		
Allowance for doubtful accounts	**Ps. 132,763**	Ps. 60,852
Provisions	**4,063,410**	4,674,325
Retirement benefits and termination benefits	**-**	338,178
Other	**492,300**	342,300
	4,688,473	5,415,654
Deferred EPS liabilities		
Deferred revenue	**142,384**	2,242,208
Prepaid expenses	**42,201**	3,399
Property, plant and equipment	**234,117**	24,739
	418,702	2,270,346
Deferred employee profit sharing asset, net	**Ps. 4,269,771**	Ps. 3,145,308

8. Net employee defined benefit liabilities

The Company has two separate pension plans for its unionized and non-unionized workers, both of which are classified as defined benefit pension plans. The Company makes contributions to a trust that it has set up to manage the plan assets.

The average remaining working lifetime of the Company's employees is 4.7 years

An analysis of the net periodic benefit cost, the net defined benefit liability and the fair value of plan assets associated with the Company's post-employment benefits (pension plan, seniority premiums, and termination benefit plan) as at and for the years ended 31 December 2020 and 2019 is as follows:

a) Net periodic benefit cost:

	2020		
	Retirement benefits	**Termination benefits**	**Total**
Analysis of net periodic benefit cost for 2020:			
Current year service cost	**Ps. 178,076**	**Ps. 263,492**	**Ps. 441,568**
Net interest cost on net defined benefit liability	**65,163**	**169,758**	**234,921**
Past service cost	**992,109**	**2,460,281**	**3,452,390**
Actuarial loss/(gain) from settlements	**6,239**	**(310,965)**	**(304,726)**
Net periodic benefit cost for 2020	**Ps.1,241,587**	**Ps.2,582,566**	**Ps.3,824,153**

	2019		
	Retirement benefits	Termination benefits	Total
Analysis of net periodic benefit cost for 2019:			
Current year service cost	Ps. 143,986	Ps. 203,395	Ps. 347,381
Net interest on net defined benefit liability	60,360	162,953	223,313
Past service cost	751,423	1,953,863	2,705,286
Actuarial loss/(gain) from settlements	36,340	140,070	176,410
Net periodic benefit cost for 2019	Ps. 992,109	Ps.2,460,281	Ps.3,452,390

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

	Retirement benefits	**Termination benefits**	**Total**
Net defined benefit liability/(asset):			
Net defined benefit liability as at 1 January 2019	Ps. 751,423	Ps.1,953,863	Ps. 2,705,286
Current year service cost	143,986	203,395	347,381
Net interest on net defined benefit	60,360	162,953	223,313
Plan contributions	129,084	241,962	371,046
Benefits paid	(92,744)	(101,892)	(194,636)
Net defined benefit liability as at 31 December 2019	**992,109**	**2,460,281**	**3,452,390**
Current year service cost	**178,076**	**263,492**	**441,568**
Net interest on net defined benefit	**65,163**	**169,758**	**234,921**
Plan contributions	**129,383**	**929,805**	**1,059,188**
Benefits paid	**(123,144)**	**(1,240,770)**	**(1,363,914)**
Net defined benefit liability as at 31 December 2020	**Ps. 1,241,587**	**Ps.2,582,566**	**Ps. 3,824,153**

9. Shareholders' equity

The Company's share capital is variable, with an authorized fixed minimum of Ps. 500,000 nominal amount and an authorized maximum of Ps249,356,591. As a result, as at 31 December 2029, the Company's variable share capital is Ps. 249,356,591nominal amount. The Company's total share capital is represented by 1,000,000 common registered shares issued and outstanding

10. Income taxes

a. Income tax recognized in profit or loss

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

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.

For the year ended December 31, 2020 the Company determined tax losses of $20,636,508.

b. An analysis of income tax recognized in profit and loss for the years ended 31 December 2020 and 2019 is as follows

	2020	2019
Deferred income tax	**$ 1,187,729**	$ 35,778,808
Deferred employee´s profit sharing	**1,124,462**	-
Total income tax	**$ 2,312,191**	$ 35,778,808

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities, at December 31, 2020 and 2019 are as follows:

	2020	2019
Deferred tax assets:		
Provisions	**$ 12,160,664**	$ 13,963,560
Tax loss carryforward	**6,190,952**	8,210,374
Impairment of inventories	**1,476,899**	1,026,899
Allowance for doubtful accounts	**398,292**	182,556
Current and deferred employee profit sharing	**243,642**	409,881
Retirement benefits and termination benefits	**-**	1,014,532
	20,470,449	24,807,802
Deferred tax liabilities:		
Fixed assets	**672,785**	14,801
Deferred revenue	**427,151**	6,726,625
Prepaid expenses	**126,603**	10,194
	1,226,539	6,751,620
Net deferred tax asset	**$ 19,243,910**	$ 18,056,182

In assessing the realizability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Commitment and contingent liabilities

a) In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

b) In accordance with the Income Taxes Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

11. New accounting pronouncements

Improvements to Mexican FRS for 2021

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

(i) FRS B-1, Accounting changes and error adjustments

The requirement was included to recognize prospectively the initial effect of an accounting change or correction of an error when in the application of the retrospective method, it is impractical to determine such initial effects.

The amendments are effective as of January 1, 2021, with early application permitted for the year 2020. Accounting changes arising, if any, should be recognized prospectively.
The adoption of this improvement had no effect on the Company's financial statements.

(ii) FRS B-3, Statement of comprehensive income

The new requirement was included to present separately, at the operating results level in the statement of comprehensive income, the gains or losses received or granted from the derecognition of liabilities.

The provisions of this Improvement became effective as of January 1, 2021, with early application permitted for the year 2020.

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

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

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