AEES MANUFACTURERA, S. DE R.L. DE C.V.

Financial statements

31 December 2018 and 2017
with independent auditor´s report

AEES MANUFACTURERA, S. DE R.L. DE C.V.

Financial statements

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Contents:

INDEPENDENT AUDITOR'S REPORT

To the Board of Director and Shareholders
of AEES Manufacturera, S. de R.L. de C.V.

Opinion

We have audited the accompanying financial statements of AEES Manufacturera, S. de R.L. de C.V. ("the Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of 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 AEES Manufacturera, S. de R.L. de C.V. as at December 31, 2018, 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 [consolidated] [unconsolidated] 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.

- 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 of the entities or business activities within the Group to express an opinion on the consolidated 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.

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.

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

Mancera, S.C.
Integrante de
Ernst & Young Global Limited

Aldo Villarreal Robledo

San Pedro Garza García, N.L., México.
July 11, 2019.

AEES MANUFACTURERA, S. DE R.L. DE C.V.

Statements of financial position

(Amounts in Mexican pesos)

	As at December 31, 2018	2017
Assets		
Current assets:		
Cash	$ 1,663,284	$ 2,563,520
Accounts receivable	1,948,764	2,258,250
Related parties (Note 3)	145,404,122	238,235,035
Accounts receivable and other current assets (Note 2)	16,385,159	25,220,448
Total current assets	165,401,329	268,277,253
Non-current assets:		
Leasehold improvements, machinery and equipment, net (Note 4)	89,886,222	53,806,424
Deferred income tax (Note 9)	29,115,836	28,360,088
Other assets	5,643,794	5,883,619
Total non-current assets	124,645,852	88,050,131
Total assets	$ 290,047,181	$ 356,327,384
Liabilities and equity		
Current liabilities:		
Suppliers	$ 67,223,217	$ 97,415,510
Related parties (Note 3)	3,041,865	8,033,195
Provisions and accrued liabilities (Note 6)	21,565,215	22,343,663
Total current liabilities	91,830,297	127,792,368
Equity (Note 7):		
Share capital	16,649,465	16,649,465
Legal reserve	1,690,209	1,690,209
Retained earnings	179,877,210	210,195,342
Total equity	198,216,884	228,535,016
Total liabilities and equity	$ 290,047,181	$ 356,327,384

The accompanying notes are part of these financial statements.

AEES MANUFACTURERA, S. DE R.L. DE C.V.

Statements of income

(Amounts in Mexican pesos)

	For the year ended as at December 31, 2018	2017
Revenues:		
Maquila revenues (Note 3)	$ 638,713,340	$ 580,788,414
Other income	2,950,336	3,125,486
	641,663,676	583,913,900
Operating expenses:		
Maquila expenses (Note 8)	609,474,825	552,445,755
Operating profit	32,188,851	31,468,145
Net financing cost:		
Interest income (Note 3)	7,249,736	8,574,781
Foreign exchange (loss) gain, net	(1,550,828)	594,656
	5,698,908	9,169,437
Income before income tax	37,887,759	40,637,582
Income tax (Note 9)	13,569,891	12,607,423
Net income of the year	$ 24,317,868	$ 28,030,159

The accompanying notes are part of these financial statements.

AEES MANUFACTURERA, S. DE R.L. DE C.V.

Statements of changes in equity

For the years ended December 31, 2018 and 2017

(Amounts in Mexican pesos)

	Share capital	Legal reserve	Retained earnings	Total
Balance as at December 31, 2016	$ 16,649,465	$ 1,690,209	$ 205,131,679	$ 223,471,353
Dividends paid (Note 7d)			(22,966,496)	(22,966,496)
Net income of the year			28,030,159	28,030,159
Balance as at December 31, 2017	16,649,465	1,690,209	210,195,342	228,535,016
Dividends paid (Note 7d)			**(54,636,000)**	**(54,636,000)**
Net income of the year			**24,317,868**	**24,317,868**
Balance as at December 31, 2018	**$ 16,649,465**	**$ 1,690,209**	**$ 179,877,210**	**$ 198,216,884**

The accompanying notes are part of these financial statements.

AEES MANUFACTURERA, S. DE R.L. DE C.V.

Statements of cash flows

(Amounts in Mexican pesos)

	For the year ended as at December 31 2018	2017
Operating activities		
Profit before income tax	$ 37,887,759	$ 40,637,582
Items not affecting cash flows:		
Depreciation	22,388,078	19,588,739
Gain on sale of machinery and equipment	-	(41,667)
Items related to financing activities:		
Interest income	(7,249,736)	(8,574,781)
Unrealized exchange rate fluctuation	(611,008)	116,282
	52,415,093	51,726,155
Changes in operating assets and liabilities:		
Accounts receivable	309,486	2,294,145
Other accounts receivable and other current assets	1,429,183	(848,198)
Related parties	87,839,583	(62,091,786)
Suppliers	(30,192,293)	37,296,805
Income tax paid	(14,325,639)	(10,095,650)
Recoverable taxes	7,406,106	4,655,661
Provisions and accrued liabilities	(167,440)	(12,624,980)
Net cash flows provided by operating activities	104,714,079	10,312,152
Investing activities		
Purchase of machinery and equipment	(58,467,876)	(12,971,383)
Proceeds from sale of machinery and equipment	-	50,000
Other assets	239,825	328,173
Net cash flows used in investing activities	(58,228,051)	(12,593,210)
Financing activities		
Dividends paid	(54,636,000)	(22,966,496)
Interest received	7,249,736	8,574,781
Net cash flows used in financing activities	(47,386,264)	(14,391,715)
Decrease in cash	(900,236)	(16,672,773)
Cash at beginning of year	2,563,520	19,236,293
Cash at end of year	$ 1,663,284	$ 2,563,520

The accompanying notes are part of these financial statements.

AEES MANUFACTURERA, S. DE R.L. DE C.V.

Notes to the financial statements

At December 2018 and 2017

(Amounts in Mexican pesos, unless otherwise indicated)

1. Nature of operations and summary of significant accounting policies

AEES Manufacturera, S. de R.L. de C.V., (The "Company") was founded in January 2nd, 2001 in accordance with Mexican law under the protection of the maquila program established by the Mexican Government. The Company have plants to perform its activity in Torreón, Piedras Negras and Cd. Acuña, Coahuila and Cd. Juárez, Chihuahua. The company is a subsidiary of Project del Holding, S.A.R.L. and its main activity is to provide a maquila services to AEES Inc. in the fabrication and assembly of electric harnesses and other components to the automotive industry.

The company does not have employees and therefore is not subject to labor obligations.

On October 27, 2015 the Ministry of Economy authorized AEES Manufacturera, S. de R.L. de C.V. to change the modality of its IMMEX Program from Industrial to a Holding Maquiladora Program.; this program includes the companies which provide personal services to AEES. With this authorization, AEES Manufacturera, S. de R.L. de C.V. acquired the quality of a controlling company with a singles IMMEX program in accordance with the Decree of the promotion of the manufacturing industry. Each of the personnel services companies entered into an individual manufacturing contract with its related party to carry out the maquila services.

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

On July 11, 2019, the financial statements and these notes were authorized by the Shared-Service Manager, Fernando Parada, 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 2018 through the above-mentioned issue date of the financial statements.

Summary of significant accounting policies

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

The financial statements as of 31 December 2018 and 2017 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 2018 and 2017 have been prepared on a historical cost basis, except for the non-monetary items that were acquired or recognized in the financial statements before 31 December 2007, as such items reflect the cumulative effects of inflation from their initial recognition date through 31 December 2007.

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 2018 and 2017, 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 2018 and 2017 is as follows:

	Cumulative inflation for 2017 (sum of inflation rates for 2015, 2016 and 2017)	**Cumulative inflation for 2018** (sum of inflation rates for 2016, 2017 and 2018)	**Inflation for the year** (inflation for 2018)
Inflation rates	12.81%	**15.25%**	**4.83%**

c) Revenue recognition

Maquila revenues are recognized at the moment in which the maquila service is rendered in accordance with the contract with their related party AEES Inc. For the determination of revenues, the company uses a factor of 4.75% profit on the costs and expenses incurred in the maquila process.

d) Use of estimates

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

The key assumptions used at December 31, 2018 and 2017, in determining estimates that involve uncertainty and may have a significant risk of causing adjustments relative importance on the carrying amount of assets and liabilities during the next financial year, are the following:

Impairment in the value of non-financial assets

Impairment exists when the carrying amount of an asset or Cash Generating Unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal or its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a Discounted Cash Flow (DCF) model. The cash flows are derived from the budget for the next five years or more, taking into account that growth rates must not be further than five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

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

- Leasehold improvements, machinery and equipment in Note 4.

e) Cash

Cash principally consist of bank deposits.

f) Prepaid expenses

Prepaid expenses are recognized for the amount paid at the time this is always done and when it is estimated that the future economic benefit associated flow to the Company. Once the good or service is received, the Company recognizes the amount on prepayments as an asset or expense, depending on whether or not you have the certainty that the purchased goods will generate a future economic benefit.

The Company periodically evaluates the ability of prepaid expenses lose their ability to generate future economic benefits and the recoverability thereof, the amount deemed as unrecoverable is recognized as an impairment loss in income for the period.

g) Leasehold improvements, machinery and equipment

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

The acquisition value of Leasehold improvements, machinery and equipment, net includes costs that have been incurred initially to be acquired or constructed and subsequently incurred to replace or increase its service potential. If an item of machinery and equipment consist of several components with different estimated useful lives, important individual components are depreciated over their individual useful lives.

The depreciation of machinery, equipment and improvements is determined based on the carrying value, using the straight-line method (since management considers that this method best reflects the use of these assets), based on the estimated useful life, as follow:

	Rate
Machinery and equipment	8%
Leasehold improvements	3%-18%

An item of leasehold improvements, machinery and equipment is derecognized upon disposal or when no future economic benefits are expected from their use or sale. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net revenue from disposal and the carrying amount of the asset) it is included in the statement of comprehensive income when the asset derecognized.

The carrying amount of machinery, equipment and improvements is reviewed whenever there are indicators of impairment in the value of such assets. When the recoverable amount of an asset, which is the higher of the asset's expected net selling price and its value in use (the present value of future cash flows), is less than its net carrying amount, the difference is recognized as an impairment loss.

For the years ended December 31, 2018 and 2017, there were no indicators of impairment.

h) Leases

Lease agreements of property, plant and equipment are recognized as financial leases if the ownership of the leased asset is transferred to the lessee upon termination of the lease, the agreement includes an option to purchase the asset at a reduced price, the term of the lease is substantially the same as the remaining useful life of the leased asset, or the present value of minimum lease payments is substantially the same as the market value of the leased asset, net of any future benefit or scrap value.

When the risks and rewards inherent to the ownership of the leased good remain substantially with the lessor, they are classified as operating leases. Rent is recognized in the income statement as incurred.

i) Liabilities, provisions, contingent liabilities and commitments

Liabilities are recognized whenever (i) the Company has current obligations (legal or constructive) resulting from a past event, (ii) when it is probable the obligation will give rise to a future cash disbursement for its settlement, and (iii) the amount of the obligation can be reasonably estimated.

When the effect of the value of money over time is significant, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate applied in these cases is pretax and reflects market conditions at the date of statement of financial position and, where appropriate, the risks specific to the liability. In these cases, the increase in the provision is recognized as an interest expense.

Contingent liabilities are recognized only when it is probable they will give rise to a future cash disbursement for their settlement.

j) Exchange differences

Transactions in foreign currency (currencies) are initially translated using the exchange rate(s) 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, as well as those arising from the translation of foreign currency denominated balances at the reporting date, 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.

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

k) Comprehensive income

The comprehensive income is the sum of the net profit or loss, Other Comprehensive Income (OCI) and participation in the OCI of other entities. For the years ended December 31, 2018 and 2017, comprehensive income equals net income for the year.

l) Income tax

Current income tax

Current income tax is recognized as a current liability, net of prepayments made during the year.

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.

m) Statement of comprehensive income presentation

Costs and expenses shown in the statement of comprehensive income are analyzed by their function, 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.

n) Concentration of risk

As at December 31, 2018 and 2017, the Company provides its maquila services exclusively to its related party AEES Inc. under a maquila program. Accordingly, in the event that the related party no longer requires these services, the Company's operating results could be adversely affected.

o) 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) D-5 "Leases" (effective as of January 1, 2019)

In December 2017, the CINIF issued the new Mexican FRS D-5 "Leases", which contains the following two critical lease accounting principles:

a) Lessees must recognize an asset representing the right to use the leased underlying asset and a liability to make lease payments, unless the lease is a short-term lease or the underlying asset has a low value.

b) Lessors must classify their lease agreements into operating or finance leases, depending on the degree to which substantially all of the risks and rewards of ownership of the underlying asset have been transferred to the lessee. Under a finance lease, the lessor derecognizes the underlying asset and recognizes a receivable. Under an operating lease, the lessor does not derecognize the underlying asset and recognizes lease payments received as accrued instead.

Mexican FRS D-5 sets out a single lessee accounting model that requires lessees to recognize assets and liabilities for all leases with lease terms of twelve months or more, unless the underlying asset has a low value. Lessees must recognize a right-of-use asset for the underlying asset and a liability representing the obligation to make lease payments.

The most important changes for lessees are as follows:

- At the lease commencement date, lessees must determine whether they obtain the right to control an identified asset or assets for a period of time.

- The new Mexican FRS D-5 eliminates the requirement for lessees to classify leases as operating leases or finance leases. Lessees now shall recognize a lease liability for the present value of the lease payments and an asset for an equal amount for the right to use the underlying asset.

- Lessees will no longer recognize operating lease expense on a straight-line basis, and will instead recognize the depreciation or amortization expense associated with the right-of-use asset and interest expense associated with their lease liabilities. The purpose of this change is to unify the treatment of lease expenses for all leases.

- In the statement of cash flows, payments arising from operating leases shall no longer be recognized within operating activities and instead shall be recognized within financing activities.

- The recognition of the gains or losses resulting from the transfer of an asset by a seller-lessee to another entity or from sale-leaseback transactions shall no longer be based on the classification of the sale-leaseback agreement; instead, the seller-lessee will only recognize a sale for the rights transferred to the buyer-lessor that will not be returned to it (the unguaranteed residual value).

The new accounting Mexican FRS D-5 "Leases" contains significant changes to lessee accounting, but no significant changes to lessor accounting compared to the former Mexican accounting Bulletin D-5 "Leases" apart from additional disclosure requirements.

Mexican FRS D-5 replaces Bulletin D-5 "Leases" ("Bulletin D-5") and the supplementary application of IFRIC 4 "Determining whether an Arrangement contains a Lease" ("IFRIC 14"). MFRS D-5 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under Bulletin D-5. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under MFRS D-5 is substantially unchanged from today's accounting under Bulletin D-5. Lessors will continue to classify all leases using the same classification principle as in Bulletin D-5 and distinguish between two types of leases: operating and finance leases.

MFRS D-5 also requires lessees and lessors to make more extensive disclosures than under Bulletin D-5.

MFRS D-5 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies MFRS D-1. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Transition to MFRS D-5 "Leases"

The Company plans to adopt MFRS D-5 retrospectively. The Company will elect to apply the standard to contracts that were previously identified as leases applying Bulletin D-5 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying Bulletin D-5 and IFRIC 4.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

During 2018, the Company has performed a detailed impact assessment of MFRS D-5. In summary the impact of MFRS D-5 adoption is expected to be, as follows:

Impact on the statement of financial position increase/(decrease) as at 31 December 2018:

	MXN
Assets:	
Right of use assets	$ 264,083,206
Liabilities:	
Lease liabilities	$ (264,083,206)

Impact on the statement of profit or loss increase for 2018:

	MXN
Depreciation expense (included in administrative expenses)	$ 55,063,935

Due to the adoption of MFRS D-5, the Company's operating profit will improve, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were classified as operating leases under Bulletin D-5.

2) New standards and Improvements to Mexican FRS effective as at 1 January 2018 and 2017

The Company applied the new revenue standards (MFRS D-1 Revenue from contracts with customers and MFRS D-2 Costs of contracts with customers) and financial instrument standards (MFRS C-2 Investments in financial instruments, MFRS C-3 Accounts receivable, MFRS C-9 Provisions, contingencies and commitments, MFRS C-10 Derivative financial instruments and hedging relationships, MFRS C-16 Impairment of financial assets, MFRS C-19 Financial liabilities and MFRS C-20 Financial assets to collect principal and interest or "new financial instrument standards") for first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

A description of the most relevant effects of the standards effective as at 1 January 2018 is, as follows:

Revenue and cost from contracts with customers

MFRS D-1 Revenue from contracts with customers (MFRS D-1) and MFRS D-2 Costs of contracts with customers (MFRS D-2) supersedes the supplementary basis of IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers.

MFRS D-1 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

MFRS D-1 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. MFRS D-2 specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted new revenue standards using the full retrospective method of adoption, as result of the adoption, the company did not determine adjustments to its financial statements due mainly to the Company's operation.

Improvements to Mexican FRS for 2018

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

(i) Mexican FRS B-2 Statement of cash flows

Mexican FRS B-2 introduces a new requirement that entities must now include in the notes to the financial statements, disclosures related to relevant changes in liabilities reported within financing activities that may or may not have required the use of cash or cash equivalents. In addition to the required disclosures, entities also need to include a reconciliation of beginning and ending balances for these items.

These improvements are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted for annual periods beginning on or after 1 January 2017, the adoption of the mentioned standard had no effect on the financial statements of the company.

(ii) Mexican FRS B-10 Effects of inflation

Mexican FRS B-10 introduces a new requirement that the notes to the financial statements (whether restated for inflation or not) should, in addition to the cumulative inflation rate for the three prior years and the inflation rate used to determine whether the entity operates in an inflationary or not inflationary economic environment, state the following rates:

- The cumulative inflation rate for three years that includes the two prior years and the current year, which shall be the basis for determining whether the entity will operate in an inflationary economic environment in the following year.

- The inflation rate considered for purposes of preparing the financial statements.

These improvements are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted for annual periods beginning on or after 1 January 2017, the adoption of the mentioned standard had no effect on the financial statements of the company.

(iii) Mexican FRS C-6 Property, plant and equipment and Mexican FRS C-8 Intangible assets

These accounting standards establish that the method used for the depreciation or amortization of an asset should reflect the pattern of consumption of the expected future economic benefits and not the pattern of generation of expected future economic benefits.

The standards also establish that the use of a depreciation or amortization method based on the amount of revenue earned from the use of the assets is no longer appropriate, since the amount of that revenue can be dependent on factors other than the pattern of consumption of the economic benefits of the asset. However, unlike Mexican FRS C-6, Mexican FRS-8 does allow entities to use a revenue-based depreciation or amortization method under certain circumstances.

These improvements are effective for annual periods beginning on or after 1 January 2018.

Improvements to Mexican FRS for 2017

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

(i) Mexican FRS B-13 Events after the reporting period

Mexican FRS B-13 had originally established that long-term liabilities that become due and payable as the result of an entity's breach of a contractual condition at the reporting date were to be reclassified to current liabilities at the reporting date, even when after the reporting date, the creditor has agreed not to demand payment from the entity.

However, based on recommendations received by the CINIF, Mexican FRS B-13 was amended to establish that if during the subsequent events period (i.e., from the reporting date to the date when the financial statements are authorized for issue) a debtor reaches an agreement with a creditor allowing the debtor to continue to make long-term payments against a liability contracted with long-term payment conditions, the entity may continue to recognize the debt as a long-term liability at the reporting date.

The CINIF, based on the economic substance postulate, indicated that in the case of bad debt arising after the reporting date, it is appropriate to maintain the long-term classification of the related financial assets or liabilities when a) the debt was originally contracted under long-term collection or payment conditions, and b) during the subsequent events period the debtor and creditor have reached an agreement for payment of the debt on a long-term basis. Mexican FRS B-13 was amended based on this conclusion, and changes were also made to the other standards that address this matter, which include Mexican FRS B-6 Statement of financial position, Mexican FRS C-19 Financial liabilities, and Mexican C-20 Financial assets to collect principal and interest.

This new accounting rule established in Mexican FRS B-13 is considered a more appropriate accounting treatment for this type of subsequent event and it is consistent with US GAAP. This accounting change represents a new difference between Mexican FRS and International Financial Reporting Standards (IFRS) that the CINIF has classified as a Type B difference, which means that the CINIF believes that the guidance provided in Mexican FRS is more appropriate and the difference will only be eliminated if the respective accounting rule in IFRS is amended to converge with Mexican FRS.

These improvements will be effective for annual periods beginning on or after 1 January 2017, with early adoption permitted for annual periods beginning on or after 1 January 2016, the adoption of the mentioned standard had no effect on the financial statements of the company.

(ii) Mexican FRS C-4 Inventories

Paragraph 60.1 of Mexican FRS C-4 requires entities to disclose the value of their consignment inventories, managed inventories, and inventories for maquila operations. Based on recommendations received by the CINIF, Mexican FRS C-4 was amended to require that entities also disclose their commitments associated with these types of inventories, which would include an entity's obligation to return inventory imported on a temporary basis. Mexican FRS C-6 Property, plant and equipment was also amended to require disclosures related to machinery and equipment imported on a temporary basis for an entity's maquila operations or for demonstration purposes and which the entity is required to return to the country of origin.

These improvements will be effective for annual periods beginning on or after 1 January 2017, the effects of this change are disclosed in Note 10

(iii) Mexican FRS C-11 Equity

Mexican FRS C-11 did not previously address the accounting treatment applicable to the costs of a stock exchange listing of shares that are already outstanding and for which the entity has received the respective capital. With this registration the entity is allowed to trade its shares on the stock exchange, expanding its financing options.

As a result, the CINIF amended Mexican FRS C-11 to establish that these costs should be immediately recognized as an expense in profit or loss, since the costs are not associated with an equity transaction.

Mexican FRS C-11 also previously established that the cost of reissuing treasury shares should be recognized in profit or loss; however, the CINIF believed that this accounting treatment was inconsistent with the treatment for stock exchange listings under Mexican FRS, since Mexican FRS generally requires these costs to be recognized as a reduction in issued and outstanding share capital. As a result, the CINIF amended Mexican FRS C-11 to require this accounting treatment for stock exchange listings as well. This accounting change is consistent with IFRS (IAS 32 Financial Instruments: Presentation).
These improvements will be effective for annual periods beginning on or after 1 January 2017, the adoption of the mentioned standard had no effect on the financial statements of the company.

2. Accounts receivable and other current assets

At December 31, 2018 and 2017, the accounts receivable and other current assets are as follows:

	2018	2017
Recoverable taxes	$ 18,688,004	$ 23,718,666
Prepaid insurance	72,599	1,501,782
	$ 18,760,603	$ 25,220,448

3. Related parties

a) An analysis of balances due from and to related parties as at 31 December 2018 and 2017 is as follows:

	2018	2017
Receivables:		
AEES Inc. [a]	$ 145,404,122	$ 238,235,035
Payables:		
Manufacturera de Componentes Eléctricos, S. de R.L. de C.V.	$ -	$ 5,156,694
AEES Inc.	3,041,865	2,876,501
	$ 3,041,865	$ 8,033,195

[a] Accounts receivable from related parties is originated by the maquila services derived from the modality of the IMMEX program of its affiliate such as described in Note 1. As of November 1st, 2015, the company provides maquila services to AEES Inc.

b) During the years ended 31 December 2018 and 2017, the Company had the following transactions with its related parties:

	2018	2017
Revenue:		
Revenue for maquila service	$ 638,713,340	$ 580,788,414
Interest income	7,249,736	8,574,781
Expenses:		
Purchases	31,861,188	41,660,152

4. Leasehold improvements, machinery and equipment

At December 31, 2018 and 2017, this caption is integrated as follows:

	2018	2017
Machinery and equipment	$ 164,392,454	$ 135,165,216
Leasehold improvements	54,683,748	38,374,049
Investments in process	16,308,818	3,377,879
Total investments	235,385,020	176,917,144
Accumulated depreciation	(145,498,798)	(123,110,720)
Total leasehold improvements, machinery and equipment net.	$ 89,886,222	$ 53,806,424

Depreciation for the year 2018 and 2017 that was recognized in the income statement amounted to $22,388,078 and $19,588,739, respectively.

Investments in process are composed as follows:

		2018		2017
Leasehold improvements	$	16,308,819	$	3,377,879

The investments in process is due to the optimization of the plant, which it is expected to be completed in a period no longer than one year.

5. Transaction in foreign currency

a) At December 31, 2018 and 2017, the Company has assets and liabilities denominated in US dollars as follows:

		2018		2017
Dollars:				
Monetary assets	US$	57,164	US$	438,402
Monetary liabilities		(944,183)		(146,402)
Net monetary liability position	US$	(887,019)	US$	(292,000)

b) The exchange rates used to convert amounts before national currency were $19.64 and $19.74 for the US dollar as of December 31, 2018 and 2017, respectively. At July 11, 2019, date of the financial statements, the exchange rate is $19.24 per dollar

6. Provisions and accrued liabilities

At December 31, 2018 and 2017, the provisions and accrued liabilities are as follows:

		2018		2017
Income tax	$	1,179,547	$	3,221,800
Taxes and contributions payable		20,325,956		19,121,863
	$	21,505,503	$	22,343,663

7. Equity

a) At December 31, 2018 and 2017, the share capital authorized is Ps. 16,649,465 which is fully subscribed and paid, share capital is unlimited. Both the fixed and the variable portion of capital are represented by shares of Series "B" with nominal value of one peso each and are fully subscribed by foreign investors.

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 2018 and 2017, the company legal reserve is $1,690,209.

c) 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.

d) Dividends paid

At Ordinary Board of Directors and Shareholders celebrated on September 24, 2018, the Shareholders declared dividends of $54,636,000. Such dividends were paid in cash.

At Ordinary Board of Directors and Shareholders celebrated on September 25, 2017, the Shareholders declared dividends of $22,966,496. Such dividends were paid in cash.

8. Maquila expenses

At December 31, 2018 and 2017, the maquila expenses are as follows:

	2018	2017
Electricity	$ 106,890,107	$ 85,088,209
Freights	90,901,123	91,383,934
Maintenance	75,704,709	73,720,113
Contract services	50,697,196	40,396,267
Production materials	30,801,819	26,150,060
Leases	55,063,935	49,028,791
Depreciation	22,388,078	19,588,739
Tools	63,521,569	56,300,707
Other expenses	113,506,289	110,788,935
	$ 609,474,825	$ 552,445,755

9. Impuestos a la utilidad

Income tax (IT)

The Mexican Income Tax Law (MITL) establishes a corporate income tax rate of 30% for fiscal years 2018 and 2017.

For the fiscal year 2018, it is important to mention that in order to comply with the MITL in Articles 179, 180 and 181, the company opted to determine its taxable income in conformity with the Article 182 section II of the MITL and a result of this applied the 6.5% on a cost and expenses incurred on the maquila operation.

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 years ended at December 31, 2018 and 2017, the Company reported a taxable income of $47,752,129 and $44,391,500, respectively, on which correspond income tax of $14,325,639 and $13,317,450, respectively.

a) An analysis of income tax recognized in profit and loss for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Current income tax	$ 14,325,639	$ 13,317,450
Deficit in prior year´s tax provision	-	(206,600)
Deferred income tax	(755,748)	(503,427)
	$ 13,569,891	$ 12,607,423

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

	2018	2017
Deferred tax assets:		
Provisions and accrued liabilities	$ 9,374,953	$ 10,546,454
Leasehold improvements, machinery and equipment, net	19,762,512	18,218,946
Total deferred tax assets	29,137,465	28,765,400
Deferred tax liabilities:		
Prepaid expenses	(21,629)	(405,312)
Total deferred tax liabilities	(21,629)	(405,312)
Deferred tax asset, net	$ 29,115,836	$ 28,360,088

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:

	2018	2017
Income before income tax	$ 37,887,759	$ 40,637,582
Plus (less):		
Annual inflation adjustment	(4,708,041)	(8,333,841)
Non-deductible expenses	225,729	7,106,272
Safe Harbor adjustment	14,707,534	-
Deficit in prior year´s tax provision	-	2,699,187
Others	(2,880,011)	(84,450)
Income before income tax	45,232,970	42,024,750
Statutory income tax rate	30%	30%
Total income tax	$ 13,569,891	$ 12,607,423
Effective income tax rate	36%	31%

10. Commitments and contingencies

a) Temporary import of merchandise and machinery

According to the Law on Income tax, companies that conduct transactions with related parties are subject to certain limitations and requirements, as to the determination of the agreed prices, as these must be comparable to those that would be used with arm's-length transactions. In the event that the tax authorities will review prices and reject the certain amounts may require, in addition to the collection of the tax, accessories corresponding (updating and surcharges), and penalties on unpaid taxes, which could become even 100% of the amount of contributions updated. The Company's policy is to conduct a transfer pricing study to evaluate the operations carried out with related parties.

b) At December 31, 2018 and 2017, and the date of issuance of these financial statements, the Company as maquiladora industry has the following commitments inherent in the IMMEX program, which have been met:

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

- Allocate temporarily imported under IMMEX program authorized purposes goods.

- Foreign return the goods within the period determined under the provisions of the Customs Law or the maquila program. At December 31, 2018 and 2017, the Company had under custody temporarily imported inventory owned by his holding company with an approximate value of US$1,288,933,551 and US$777,809,405, respectively (unaudited amounts).

- At December 31, 2018, the Company had under custody temporarily imported assets owned by his holding company with an approximate value of $1,324,935,522 and $1,143,777,524 (unaudited amounts).

- Maintain a control of automated inventory with certain minimum information.

c) The company leases the building, parking lot and plant used in the operation in accordance with the lease contracts with validity until 2021. The total lease expense is $55,063,935 in 2018 and $49,028,791 in 2017. The amount of the annual lease is as follows:

Year	MXN
2019	$ 121,006,337
2020	81,525,680
2021 - 2023	61,551,189
	$ 264,083,206

d) In accordance with current tax legislation, the authorities are entitled to examine the five fiscal years prior to the last statement filed income tax.

e) According to the Law on Income tax, companies that conduct transactions with related parties are subject to certain limitations and requirements, as to the determination of the agreed prices, as these must be comparable to those that would be used with arm's-length transactions. In the event that the tax authorities will review prices and reject the certain amounts may require, in addition to the collection of the tax, accessories corresponding (updating and surcharges), and penalties on unpaid taxes, which could become even 100% of the amount of contributions updated. The Company's policy is to conduct a transfer pricing study to evaluate the operations carried out with related parties.