ALPHABET DE SALTILLO, S.A. DE C.V.
(Subsidiary of MSSL (GB) Limited)

Financial statements

Years ended December 31, 2018 and 2017
with report of independent auditors

ALPHABET DE SALTILLO, S.A. DE C.V.
(Subsidiary of MSSL (GB) Limited)

Financial statements

At December 31, 2018 and 2017

Contents:

Construyendo un mejor entorno de negocios

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INDEPENDENT AUDITORS REPORT

At the General Shareholders' Meeting
Alphabet de Saltillo, S.A. de C.V.

Qualified opinion

We have audited the accompanying financial statements of Alphabet de Saltillo, S.A. de C.V. which comprise the statement of financial position as at December 31, 2018, and the statement of income, statement of changes in stockholders' equity and statement of cash flows for the year then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the issues described in the section "Foundations for qualified opinion", the accompanying financial statements present fairly, in all material respects, the financial position of Alphabet de Saltillo, S.A. 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").

Foundations for qualified opinion

1. As discussed in Note 1l) to the accompanying financial statements, the Company did not recognize deferred taxes as at December 31, 2018 and 2017, as required by Mexican Financial Reporting Standard (Mexican FRS) D-4 Income tax. In accordance with Mexican FRS D-4, deferred taxes should be recognized on all temporary differences between the financial reporting and tax values of assets and liabilities at the reporting date. Nevertheless, management determined that it was not practical to calculate the Company's deferred taxes as at December 31, 2018 and 2017.

2. As discussed in Note 1i) to the accompanying financial statements, the Company did not recognize deferred employee profit sharing as at December 31, 2018 and 2017, as required by Mexican Financial Reporting Standard D-3 Employee benefits, since management determined that it was not practical to calculate the Company's deferred employee profit sharing as at December 31, 2018 and 2017.

3. As discussed in Note 1h) to the accompanying financial statements, the Company did not record a provision for its obligation related to termination benefits as at December 31, 2018 and 2017, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 Employee benefits. The lack of recognition of such liability is considered a material deviation for the accompanying financial statements. In addition local management determined that it was not practical to calculate the Company's employee benefit obligation.

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 qualified opinion.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Jaime De La Garza Villarreal

San Pedro Garza García, N.L., México.
June 7, 2019.

ALPHABET DE SALTILLO, S.A. DE C.V.
(A Subsidiary of MSSL (GB) Limited)

Statements of financial position

(Amounts in Mexican pesos)

	December 31, 2018		December 31, 2017	
Assets				
Current assets:				
Cash	$	1,312,037	$	5,376,405
Accounts receivable (Note 2)		4,854,562		4,085,569
Related parties (Note 3)		58,963,349		63,566,572
Prepaid expenses		1,641,315		2,140,845
Total assets	$	66,771,263	$	75,169,391
Liabilities and stockholder's equity				
Current liabilities:				
Suppliers	$	8,774,667	$	2,562,470
Direct benefits to employees (Note 5)		17,935,332		11,440,234
Accrued expenses and other taxes		23,338,190		17,913,093
Taxes payable (Note 8)		1,216,709		-
Total current liabilities		51,264,898		31,915,797
Long-term liabilities:				
Labor obligation (Note 6)		1,937,092		1,047,475
Total liabilities		53,201,990		32,963,272
Stockholder´s equity: (Note 7)				
Capital stock		50,000		50,000
Retained earnings		13,519,273		42,156,119
Total stockholder's equity		13,569,273		42,206,119
Total liabilities and stockholder's equity	$	66,771,263	$	75,169,391

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

Angel Alviso
Comptroller

ALPHABET DE SALTILLO, S.A. DE C.V.
(A Subsidiary of MSSL (GB) Limited)

Statements of income

(Amounts in Mexican pesos)

	For the year ended December 31, 2018	2017
Revenues:		
Maquila revenues (Note 3)	$ 462,307,497	$ 294,516,628
Other income, net	198,484	326,577
	462,505,981	294,843,205
Expense and cost:		
Expense of maquila	(437,749,319)	(278,836,124)
Operating income	24,756,662	16,007,081
Comprehensive financing cost:		
Interest income, net	2,015	1,690
Exchange (loss) income, net	(522,300)	235,766
	(520,285)	237,456
Income before income taxes	24,236,377	16,244,537
Taxes on profits (Note 8)	(10,717,104)	(7,218,960)
Net income	$ 13,519,273	$ 9,025,577

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

Angel Alviso
Comptroller

ALPHABET DE SALTILLO, S.A. DE C.V.
(A Subsidiary of MSSL (GB) Limited)

Statements of changes in stockholder's equity

For the years ended December 31, 2018 and 2017

(Amounts in Mexican pesos)

	Capital stock	Retained earnings	Total
Balance as of December 31, 2016	$ 50,000	$ 33,130,542	$ 33,180,542
Net income		9,025,577	9,025,577
Balance as of December 31, 2017	50,000	42,156,119	42,206,119
Dividends paid (Note 7)		(42,156,119)	(42,156,119)
Net income		13,519,273	13,519,273
Balance as of December 31, 2018	$ 50,000	$ 13,519,273	$ 13,569,273

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

Angel Alviso
Comptroller

ALPHABET DE SALTILLO, S.A. DE C.V.
(A Subsidiary of MSSL (GB) Limited)

Statements of cash flows

(Amounts in Mexican pesos)

	For the years ended December 31, 2018	2017
Operating activities		
Income before taxes on profits	$ 24,236,377	$ 16,244,537
Items in results of operations not affecting cash:		
Labor obligation	889,617	311,111
Interest income	(2,015)	(1,690)
	25,123,979	16,553,958
Changes in operating assets and liabilities:		
Accounts receivable	447,716	(5,447,600)
Related parties	4,603,223	(5,551,637)
Prepaid expenses	499,530	(926,539)
Suppliers	6,212,197	(845,741)
Direct employees benefits	6,495,098	2,353,310
Taxes payable	(10,717,104)	(7,218,960)
Accrued expenses and other taxes	5,425,097	2,976,199
Net cash provided by operating activities	38,089,736	1,892,990
Investing activities		
Interest received	2,015	1,690
Net cash provided by investing activities	2,015	1,690
Financing activities		
Dividends paid	(42,156,119)	-
Net cash used in financing activities	(42,156,119)	-
(Decrease) increase in cash, net	(4,064,368)	1,894,680
Cash at beginning of year	5,376,405	3,481,725
Cash at end of year	$ 1,312,037	$ 5,376,405

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

Angel Alviso
Comptroller

1. Operations

Alphabet de Saltillo, S.A. de C.V. (The "Company") started July 1, 2014 a subsidiary of MSSL (GB) Limited, (MSSL) it was founded in March 17, 2011, in accordance with Mexican law under the protection of the maquila program established by the Mexican Government. Its main activity is the design and manufacture of components, modules and electricity distribution systems and signals under a maquila agreement with MSSL Wiring System, Inc. (a related party).

The period of operations of the Company and the fiscal year comprise from January 1 to December 31.

The issuance of the financial statements and the accompanying notes was authorized by Angel Alviso, Comptroller on June 7, 2019. These financial statements must be approved at a later date by the Board of Directors and the Shareholders. These bodies have the power to amend the accompanying financial statements. Subsequent events were considered to date.

Summary of significant accounting policies

a) Compliance with Mexican Financial Reporting Standards

Except as mentioned in paragraphs h), i) and l), the accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (Mexican FRS).

b) Basis of preparation

The financial statements as of December 31, 2018 and 2017 have been prepared on a historical-cost basis.

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

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 infaltion for 2018 (sum of inflation rates for 2016, 2017 and 2018)	Inflation for the year (inflation rate for 2018)
Inflation rates	12.81%	14.96%	4.83%

c) Recognition of revenues

Maquila revenues are recognized at the moment in which the service is provided maquila. For the determination of income the company uses a factor of 5.92% 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:

Retirement benefits

The cost of defined benefits and the present value of the corresponding obligations are determined using actuarial valuations. Actuarial valuations involve a number of assumptions. These include determining the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are very sensitive to changes in these assumptions. All assumptions are reviewed at each closing date of the reporting period.

To calculate the discount rate, management considers the interest rates of marketable securities in the corresponding currencies. These instruments must be at least AA rated, and management uses extrapolated maturities covering the expected duration of the defined benefit obligation. The underlying bonds are further assessed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, due to their low quality.

The mortality rate is based on the country charts.

Future increases in wages and pensions are based on future inflation rates expected in the country.

Note 6 shows more detail on the assumptions used.

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) 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 pre-tax 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. Also, commitments are only recognized when they will generate a loss.

The Company recognizes a contingent asset at the time the gain is realized.

h) Reserve for seniority premiums, termination benefits and other benefits

Seniority premiums are paid to workers as required by Mexican labor law. Under Mexican labor law, the Company is also obligated to make certain payments to workers who leave the Company or are dismissed in certain circumstances.

The premium costs seniority and termination benefits are recognized annually based on calculations by independent actuaries using the projected unit credit method using financial assumptions in nominal terms. The latest actuarial valuation was carried out in December 2018.

As at December 31, 2018 and 2017, the Company did not record a provision for its obligation related to termination benefits, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3, Employee benefits, because management determined that it was not practical to calculate the Company's employee benefit obligation.

i) Employee profit sharing

Current employee profit sharing is 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 calculated 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 its 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.

The Company did not recognize deferred employee profit sharing as at December 31, 2018 and 2017, as required by Mexican FRS D-3 Employee benefits, since management determined that it was not practical to calculate the Company's deferred employee profit sharing as at December 31, 2018 and 2017.

j) Foreign exchange

Transactions in foreign currency are recognized at the prevailing exchange rate on the day of the related transactions. Foreign currency denominated assets and liabilities are valued at the prevailing exchange rate at the date of the statement of financial position.

Exchange differences from the transaction date to the time foreign currency denominated assets and liabilities are settled, as well as those arising from the translation of foreign currency denominated balances at the date of the statement of financial position, are recognized in the statement of comprehensive income.

See Note 4 for the Company's foreign currency 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) Taxes on profits

Current year taxes on profits

Current-year taxes on profits are presented as a current liability, net of prepayments made during the year.

Deferred income taxes

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

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

The Company did not recognize deferred taxes as at December 31, 2018 and 2017, as required by Mexican FRS D-4 Income tax, since management determined that it was not practical to calculate the Company's deferred taxes as at December 31, 2018 and 2017.

m) Statement of comprehensive income presentation

Costs and expenses in the statements of comprehensive income are presented according to their function, as this classification allows properly assess gross margins and operating income. Presenting operating income is not required; however, it is presented as it is an important performance evaluation indicator of the Company.

n) Concentration of risk

As at December 31, 2018 and 2017, the Company provides its maquila services exclusively to its related party MSSL Wiring System, 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 recognise 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 recognise 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 recognise 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 2019:

	MXN
Assets:	
Right-of-use assets	$ 57,109,591
Liabilities:	
Lease liabilities	$ (57,109,591)

Impact on the statement of profit or loss (increase/(decrease)) for 2019:

	MXN
Depreciation expense (included in administrative expenses)	$ 14,277,398

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.

Improvements to Mexican FRS for 2019

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-9 Interim financial reporting

Mexican FRS B-9 Interim financial reporting introduces new disclosure requirements for condensed financial statements for an interim period related to the fair value of the Company's financial instruments and revenue from contracts with customers, such as changes in economic and business circumstances that affect the fair value of financial assets and liabilities, transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments, changes in the classification of financial assets as a result of a change in the purpose or use of those assets or changes in contingent liabilities or contingent assets, regardless of the date of the most recent annual financial report.

These improvements are effective for annual periods beginning on or after 1 January 2019. Any accounting changes arising from the adoption of these improvements are to be recognized prospectively.

The adoption of these new accounting standards had no effect on the Company's financial statements.

Improvements to Mexican FRS for 2018

The new financial reporting standards 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 January 1, 2018, with early adoption permitted for annual periods beginning on or after January 1, 2017.

The adoption of this accounting standard had no effect on the company´s financial statements.

(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 January 1 2018, with early adoption permitted for annual periods beginning on or after January 1 2017.

The adoption of this accounting standard had no effect on the company´s financial statements.

2. Accounts receivable

At December 31, 2018 and 2017 accounts receivable is as follows:

	2018	2017
Recoverable taxes	$ 4,228,445	$ 3,830,886
Advance to employees	60,138	8,000
Sundry debtors	565,979	246,683
	$ 4,854,562	$ 4,085,569

3. Related parties

The companies mentioned in this note are considered as affiliates, and the stockholders of these companies are also stockholders of the Company.

Balances with related parties at December 31, 2018 and 2017 parts are as follows:

	2018	2017
Receivable:		
MSSL Wiring System, Inc. [(a)]	$ 58,963,349	$ 63,566,572

[(a)] The company conducts its operations through a maquila's contract, which states that income will be calculated based on the costs and expenses incurred in the conduct of its operations plus a percentage of profit.

Operations with related parties performed in the normal course of business, were as follows:

	2018	2017
Revenue:		
Revenue for maquilas service	$ 462,307,497	$ 294,516,628

4. 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$ 17,296	US$ 260,957
Monetary liabilities	(56,183)	(96,271)
Net monetary liability position	US$ (38,887)	US$ 164,686

b) The exchange rates used to convert amounts before national currency were $19.65 and $19.74 for the US dollar as of December 31, 2018 and 2017, respectively. At June 7, 2019, date of the financial statements, the exchange rate is $19.70 per dollar.

5. Direct benefits to employee

At December 31, 2018 and 2017, the Company has the following accruals related to direct benefits to employee:

	2018	2017
Holidays and holiday bonus	$ 8,585,321	$ 5,594,227
Wages to paid	5,149,186	2,926,954
Employee profit sharing	4,200,825	2,919,053
	$ 17,935,332	$ 11,440,234

6. Labor obligations

Seniority premium consists of a single payment of 12 days per worked based on the last salary, limited to twice the minimum wage established by law year. The related liability and annual cost of benefits is calculated by an independent actuary on the basis defined in the plans using the projected unit credit method.

At December 31, 2018 and 2017, the net cost of the period, defined benefit obligations related to the retirement plan (Seniority premium retirement), are as follows:

a) Net period cost:

	2018	2017
Integration net period cost:		
Labor cost of actual service	$ 531,931	$ 320,539
Net interest of liabilities (assets) net by defined benefit	78,557	56,597
Remediation recycling	279,129	(66,025)
Net period cost	$ 889,617	$ 311,111

b) Defined benefit obligations are shown below:

	2018	2017
Provisions to:		
Obligations for Benefits Acquired (OBA)	$ 47,641	$ 38,04
Obligations for benefits not acquired	1,889,451	1,009,428
Defined benefit obligations, net	$ 1,937,092	$ 1,047,475

c) The real interest rates used in the actuarial calculations were as follows:

	2018	2017
Discount benefit obligations:		
Projected present value	10.00%	7.85%
Salary increase	5.00%	5.00%

7. Stockholders' equity

a) Capital stock at December 31, 2018 and 2017 is represented by $50,000 fully subscribed and paid in cash, the maximum share capital of the company is unlimited. Variable. The minimum fixed capital is represented by nominative common and released representative of the fixed portion of capital without right of withdrawal. 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, such shares will be freely subscribed.

b) According to the general law of commercial companies, the company must separate from the net income of each year at least 5% to increase the legal reserve until it reaches 20% of the share capital. At December 31, 2018 and 2017, the company has not created the legal reserve.

c) The earnings distributed in excess of the balances of the accounts CUFINRE and CUFIN (Net Tax Income Account), shall be subject to corporate income tax in force at the time of distribution rate. The payment of this tax may be credited against income tax.

d) At regular shareholders' meetings held on August 10, 2018, the shareholders declared dividends of Ps. 42,156,119 which comes from CUFIN. Such dividends were cash-paid in full on August 13, 2018.

Dividends to individuals and legal persons resident abroad are paid on profits generated from 2014, will be subject to a withholding tax of an additional 10%.

8. Taxes on profits

a) Income tax

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

The profit margin of 5.92% for maquila services for 2018 was determined using the so-called Fast Track methodology approved by the Mexican Tax Administration Service (SAT) and the U.S. Internal Revenue Service (IRS). As part of the Fast Track program, the Company's advance pricing agreement will be resolved using this approach.

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 determined a tax profit by $35,723,680 and $24,063,200, respectively, on which correspond an income tax of $10,717,104 and $7,218,960, respectively.

b) Employee profit sharing

The MITL establishes that as of January 1, 2014, entities are to calculate their employee profit sharing on the basis of their taxable earnings for the year determined for income tax purposes, plus or minus the effects of certain adjustments specified in the Law.

9. Commitments and contingencies

I. Commitments

For the land and building used in the operation, the company has entered into a lease for a period of 5 years mandatory maturing in 2023; the expense rent in 2018 and 2017 amount is $13,589,442 and $13,367,047, respectively. At December 31, 2018, the following minimum payments guaranteed are:

Years		Dollar amount
2019	$	724,645
2020		724,645
2021		724,645
2022		724,645
2023		724,645
	$	3,623,225

II. Contingencies

At December 31, 2018, the company has the following contingencies:

a) There is a contingent liability derived labor obligations mentioned in Note 1h).

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

c) 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.

d) At December 31, 2018 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$12,454,423 and US$8,945,856, 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 $4,915,981 (unaudited amounts).

- Maintain temporarily imported goods at the address registered in the program.

- Request of Secretary of Economy, following proceedings before the Mexican Tax Authorities (SAT), registration of changes in the data given in the request for approval of the maquila program, such as company name, address and federal registration of taxpayers, and suspension of activities.

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

- Submit an annual report no later than electronically to the Secretary of Economy and the Mexican Tax Authorities (SAT) respect to total sales and exports for the fiscal year immediately preceding the last business day of the month of May of the following year.

- In addition, returning the materials and inputs imported temporarily, the maquiladora must pay import taxes corresponding to those materials whose country of origin has not signed a bilateral free trade, likewise, you must pay the VAT on imports machinery and equipment, once it is canceled the IMMEX program and these assets remain in Mexico.

Angel Alviso
Comptroller