

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.  
(Subsidiary of Motherson Techno Precision GmbH)

Financial statements

At December 31, 2018 and 2017  
with report of independent auditors

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(Subsidiary of Motherson Techno Precision GmbH)

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At December 31, 2018 and 2017

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Torre Equus  
335 Ricardo Margain  
Valle del Campestre  
San Pedro Garza García, Nuevo León  
C.P. 66265

Tel: (81) 8152 1800  
Fax: (81) 8152 1839  
ey.com.mx

## REPORT OF INDEPENDENT AUDITORS

To the Shareholders Meeting of  
Motherson Techno Precision México, S.A. de C.V.

We have audited the accompanying financial statements of Motherson Techno Precision México, S.A. de C.V., (Company), which comprise the statement of financial position as of December 31, 2018, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and the 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 Motherson Techno Precision México, 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).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the 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 [consolidated] [unconsolidated] 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 financial statements in accordance with MFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable about whether the financial statements as a whole are free from material misstatement, whether due to fraud error, and to issue an auditor's report that included 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 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 asses 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 or 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, international 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 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 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.

### Emphasis of matter

We draw attention to Note 12, which indicates that at December 31, 2018, the Company had an insufficiency in capital stock of \$55,223,283 and had lost more than two thirds of its capital stock which, according to the General Law of Commercial Societies, might produce dissolution. These events or conditions, along with other matters as set forth in Note 12, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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



Aldo A. Villarreal Robledo

May 28, 2019.

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.  
(Subsidiary of Motherson Techno Precision GmbH)

Statements of financial position

(Mexican pesos)

	At December 31,	
	2018	2017
Assets		
Current assets:		
Cash (Note 5)	\$ 7,220,589	\$ 13,289,618
Trade receivables	34,103,040	24,781,263
Recoverable value add tax	1,858,651	1,214,374
Income tax recoverable	-	2,774,125
Inventories (Note 7)	39,133,720	27,112,072
Advanced payments	1,914,925	1,678,917
Total current assets	84,230,925	70,850,369
Machinery and equipment, net (Note 8)	34,494,921	33,775,446
Intangible assets (Note 9)	405,038	513,598
Deferred income tax (Note 15)	21,139,930	18,086,565
Deferred profit sharing (Note 16)	7,124,112	6,045,943
Total assets	\$ 147,394,926	\$ 129,271,921
Liabilities and stockholders' equity		
Current liabilities:		
Suppliers	\$ 19,667,550	\$ 9,466,361
Income tax payable	4,283,064	560,414
Related parties (Note 6)	5,385,448	1,672,021
Other accounts payable and accrued expenses	56,623,044	40,940,839
Employee profit sharing (Note 16)	6,347,145	6,220,442
Total current liabilities	92,306,251	58,860,077
Long-term related parties (Note 6)	109,438,914	127,591,440
Employee benefits (Note 11)	863,923	830,994
Total liabilities	202,609,088	187,282,511
Equity (Note 12):		
Capital stock	50,000	50,000
Accumulated losses	( 58,060,590)	( 62,095,959)
Net income	2,796,428	4,035,369
Total equity (deficit)	( 55,214,162)	( 58,010,590)
Total liabilities and equity	\$ 147,394,926	\$ 129,271,921

The attached notes are integral part of these financial statements, which were authorized for its issuance by the officer who sign at the end.

  
 Martha Butron  
 Operations Manager

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.  
(Subsidiary of Motherson Techno Precision GmbH)

Statements of comprehensive income

(Mexican pesos)

	For the years ended December 31,	
	2018	2017
Net sales (Note 13)	\$ 199,619,404	\$ 184,884,303
Cost of sales (Note 14)	( 129,723,876)	( 115,764,939)
Gross profit	69,895,528	69,119,364
Operating expenses (Note 14)	( 49,959,585)	( 45,052,616)
Operating profit	19,935,943	24,066,748
Comprehensive financing result:		
Interests paid, net (Note 6b)	( 4,139,955)	( 3,861,655)
Exchange loss, net	1,500,441	( 4,991,561)
	( 2,639,514)	( 8,853,216)
Income before income tax	17,296,429	15,213,532
Provision for income tax (Note 15)	( 14,500,001)	( 11,178,163)
Net income for the period	\$ 2,796,428	\$ 4,035,369

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 Martha Butron  
 Operations Manager

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.  
(Subsidiary of Motherson Techno Precision GmbH)

Statements of changes in equity

For the years ended December 31, 2018 and 2017

(Mexican pesos)

	Capital stock	Accumulated losses	Net income (loss)	Total
Balances at December 31, 2016	\$ 50,000	\$ ( 47,519,224)	\$ ( 14,576,735)	\$ ( 62,045,959)
Transfer to accumulated losses		( 14,576,735)	14,576,735	-
Comprehensive income			4,035,369	4,035,369
Balances at December 31, 2017	50,000	( 62,095,959)	4,035,369	( 58,010,590)
Transfer to accumulated losses		4,035,369	( 4,035,369)	-
Comprehensive income			2,796,428	2,796,428
Balances at December 31, 2018	\$ 50,000	\$ ( 58,060,590)	\$ 2,796,428	\$ ( 55,214,162)

The attached notes are integral part of these financial statements, which were authorized for its issuance by the officer who sign at the end.

  
Martha Butron  
Operations Manager



MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.  
(Subsidiary of Motherson Techno Precision GmbH)

Statements of cash flows

(Mexican pesos)

	For the years ended December 31,	
	2018	2017
Operating activities		
Income before income tax	\$ 17,296,429	\$ 15,213,532
Investing activities related items:		
Deferred employee 's profit sharing	( 1,078,169)	( 1,862,078)
Employees' benefits	32,929	105,884
Depreciation and amortization	9,617,634	9,958,992
Financing activities related items:		
Interest expense	4,153,819	4,166,777
	<u>30,022,642</u>	<u>27,583,107</u>
Changes in operating assets and liabilities:		
Accounts receivable and others	( 7,427,937)	( 5,586,998)
Related parties payable	3,713,427	( 730,405)
Inventories	( 12,021,648)	( 744,629)
Suppliers	10,201,189	( 3,412,167)
Sundry creditors and other accounts payable	1,978,193	2,536,214
Net cash provided by operating activities	<u>26,465,866</u>	<u>19,645,122</u>
Investment activities		
Acquisition of machinery and equipment	( 10,208,550)	( 17,100,058)
Acquisition of intangible assets	( 20,000)	( 213,370)
Net cash used in investment activities	<u>( 10,228,550)</u>	<u>( 17,313,428)</u>
Financing activities		
Motherson Orca Precision Technology GmbH	( 18,152,526)	7,685,527
Interest paid	( 4,153,819)	( 4,166,777)
Net cash (used in) provided by financing activities	<u>( 22,306,345)</u>	<u>3,518,750</u>
Cash:		
(Decrease) increase of cash	( 6,069,029)	5,850,444
At the beginning of the year	13,289,618	7,439,174
Cash at the end of the year	<u>\$ 7,220,589</u>	<u>\$ 13,289,618</u>

The attached notes are integral part of these financial statements, which were authorized for its issuance by the officer who sign at the end.

  
Martha Butron  
Operations Manager

MOTHERSON TECHNO PRECISION MÉXICO, S.A. DE C.V.  
(Subsidiary of Motherson Techno Precision GmbH)

Notes to the financial statements

As of December 31, 2018 and 2017

(Amounts expressed in Mexican pesos, unless otherwise indicated)

1. History and company activities

Motherson Techno Precision México, S.A. de C.V. (the Company), was incorporated in accordance with Mexican Laws on April 8, 2013 and it is subsidiary of Motherson Techno Precision GmbH (holding Company). Its main activity is manufacturing, design, assembly, production and commercialization in any form of any kind of turned and milled parts of high quality precision, particularly parts for fueling.

Manufacturing and sales operation of the Company are made in accordance with the terms of contracts between Motherson Techno Precision México, S.A. de C.V., and its client Continental Inc., in the territories and in accordance with such contract signed in 2013 and ends December 31, 2019. During 2018 and 2017 sales to Continental Inc., represent 100% of total production of the Company, consequently is economically dependent on the continuance of the contract.

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

On April 30, 2019, the financial statements and these notes were authorized by the Company's Plant Manager, Martha Butron, 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 January 1, 2019 through the above-mentioned issue date of the financial statements.

2. Summary of significant accounting policies

a) Compliance with Mexican Financial Reporting Standards

The accompanying financial statements as of December 31, 2018 and 2017, have been prepared in accordance with Mexican Financial Reporting Standards (MFRS or Mexican FRS).

b) Basis of presentation

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

As of January 1, 2008, the Mexican economy is in a non-inflationary environment, in accordance with NIF B-10 "Effects of inflation". Therefore, as of December 31, 2018 and 2017, a non-inflationary environment is maintained, since the accumulated inflation of the last three years is below 26% (annual average of 8%).

2.

The inflation of 2018 and 2017, determined through the National Index of Consumer Prices (INPC) published by the National Institute of Statistics and Geography (INEGI), is shown below:

	Cumulative inflation for 2017	Cumulative inflation for 2018	Inflation for the year
	(Sum of inflation rates for 2015, 2016 and 2017)	(Sum of inflation rates for 2016, 2017 and 2018)	(Inflation rate for 2018)
Inflation rates	12.26%	14.96%	4.83%

According to the Mexican Financial Reporting Standards, it corresponds to a non-inflationary economic environment, which requires that the preparation of financial statements be continued on the basis of historical cost.

c) Functional currency

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

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

d) Revenue from contracts with customers

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

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

Sale of goods

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

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

## Contract balances

### Trade receivables

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

### Contract liabilities and advances from customers

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

### Assets and liabilities arising from rights of return

#### Right of return assets

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

#### Refund liabilities

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

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

#### e) Use of estimates

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

## Estimates and assumptions

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

## Judgements

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

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

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

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

### Defined benefit plans (pension benefits)

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

In determining the appropriate discount rate, management considers the interest rates of marketable securities in currencies consistent with the currencies of the post-employment benefit obligation by reference to market yields on high-quality corporate bonds or when no such information is available, by reference to market yields on government bonds. When a corporate bond rate is used, the underlying bonds are further assessed for quality, and those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based due to their low quality. As at 31 December 2018 and 2017, the Company has used a government bond rate to discount its long-term defined employee benefits, since management believes that this rate best reflects the present value of the Company's expected future benefit payments based on the characteristics of plan participants and the estimated future payment dates of the benefits.

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

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

Additional information on the assumptions used is provided in Note 16.

f) Cash and cash equivalents

Cash and cash equivalents principally consist of petty cash balances in local and foreign currency, bank deposits, minted precious metals, and highly liquid investments with maturities of 90 days or less. Cash and cash equivalents are stated at fair value.

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

Bank overdrafts are recorded as current liabilities, even when the Company has other checking accounts with the same bank with positive balances since the Company does not have any balance offset agreements with the bank.

g) Trade receivables and other accounts receivable

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

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

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

6.

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

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

Receivables denominated in foreign currency or in another medium of exchange are translated to the Company's functional currency using the rate of exchange prevailing at the reporting date. Changes in the amount of trade receivables arising from exchange rate fluctuations are recognized as part of net financing cost.

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

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

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

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

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

#### h) Allowance for expected credit losses

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

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

#### i) Inventories

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

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

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

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

#### j) Prepaid expenses

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

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

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

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

#### k) Machinery and equipment

Property, plant and equipment is measured initially at cost.

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

The cost of acquiring property, plant and equipment includes the costs initially incurred to acquire or build the asset, plus costs subsequently incurred to replace the asset or enhance its service capability. For machinery and equipment made up of components with different estimated useful lives, the major individual components are depreciated over their individual useful lives. Repair and maintenance costs are expensed as incurred.



8.

Depreciation of property, plant and equipment is calculated on the asset's acquisition cost less the residual value of property, plant and equipment on a straight-line basis (since management considers that this method best reflects the use of these assets) and over the estimated useful lives of the assets, as described in Note 8.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of comprehensive income, when the asset is derecognized.

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

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

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

#### l) Intangible assets

Costs are capitalized only when such costs can be reliably quantified, the Company expects to obtain future economic benefits from the investment and the Company maintains control over such benefits, as of December 31, 2018 and 2017, this caption is integrated by investments in software. As of December 31, 2018 and 2017, amortization charged to results of operations amounted to \$128,560 and \$121,685, respectively.

#### m) 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.

n) Accrued liabilities, provisions, contingent liabilities and commitments

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

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

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

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

Contingent assets are recognized when the realization of income is virtually certain. Trade advances in foreign currency are translated using the exchange rate prevailing on the day of the initial transactions, and are not adjusted for subsequent changes in exchange rates. Trade advances are recognized as current liabilities and recognized as expenses as the products are sold or the services are rendered.

o) Income tax

Current income tax

Current income tax is recognized as a current liability, net of prepayments made during the year. Current income tax is recognized as expenses in profit or loss, except to the extent that it arises from transactions or other events recognized outside profit or loss, either in comprehensive income or directly in equity.

Deferred income tax

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

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

10.

p) Employee Profit Sharing (EPS)

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

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

Deferred employee profit sharing assets and liabilities relating to items outside profit or loss from components of other comprehensive income that have not yet been realized are recognized in equity and reclassified to profit or loss immediately as accrued.

q) Employees' benefits

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

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses and the return on plan assets, are immediately recognized in profit or loss.

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

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

Additional information is described in Note 11.

r) Comprehensive income (loss)

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

s) Costs, expenses and additional line items presentation in the income statement

The Company presents the costs and expenses in the income statement under the classification criterion based on the function of items, which has as its key feature separating the cost of sales of other costs and expenses. Additionally, for a better analysis of your financial position, the Company has considered necessary to show the amount of operating income (loss) separately in the income statement, because such information is a common practice in the industry the entity belongs to.

Allowance for bad debts, bonus and discounts are recognized based on studies made by the Company's management and considered sufficient to absorb losses. Applications to such allowance are recognized in the income statement of the year.

t) Statement of comprehensive income presentation

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

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

u) Exchange differences

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

Exchange differences from the transaction date to the time foreign currency denominated assets and liabilities are settled are recognized in the statement of income, except for those arising on foreign currency denominated loans obtained for the construction of fixed assets, as such costs are capitalized as borrowing costs during the construction period of the assets.

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

See Note 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.

12.

v) Equity

Changes in the Company's equity, legal reserve and cumulative gains (losses) are recognized in terms of historical cost as of 1 January 2008. These changes were restated for inflation through December 31, 2007.

Contributions for future capital increases that meet the requirements of Mexican FRS C-11 "Equity" (those for which there are firm shareholder commitments, for which a fixed number of shares has been established in exchange for a predetermined contribution amount, among others) are recorded as part of contributed capital. Contributions for future capital increases that do not meet these requirements must be recognized as liabilities in the statement of financial position.

w) Capital management

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

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

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

3. 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 1 January 2019)

In December 2017, the Mexican Financial Reporting Standards Board (Consejo Mexicano de Normas de Información Financiera, A.C. or 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 1 January 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.

During 2018, the Company made an impact assessment of NIF D-5 in its financial information as of the date of its adoption, the estimated amount that it will need to recognize as an asset for right of use and its corresponding liability amounts to \$17,268,545, said amount may be subject to additional changes.

## 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 adoption of this Standard had no effect on the Company's financial statements.

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

The adoption of this improvement had no effect on the Company's financial statements, except as described in Note 2.

(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.

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

(iv) Mexican FRS C-14 Transfer and derecognition of financial assets

Mexican FRS C-14 eliminated the contradiction between paragraphs 42.5.5 and 42.5.6 whereby the subsequent fair value adjustments of transferred assets over which the entity retains some degree of continuing involvement were to be recognized in profit or loss. Mexican FSR C-14 now requires that the subsequent recognition be carried out following the appropriate accounting guidance for each type of asset and the classification of each asset.

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

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

#### 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 this improvement had no effect on the Company's financial statements.

18.

(ii) Mexican FRS D-3 Employee benefits

a) Discount rate for employee benefit liability valuation

Paragraph 45.5.9 of Mexican FRS D-3 previously established that the interest rate used to discount post-employment benefit obligations (funded or unfunded) was to be determined by reference to market yields on high-quality corporate bonds or when no such information was available, by reference to market yields on government bonds.

However, based on recommendations received by the CINIF, Mexican FRS D-3 was amended to allow entities to elect to use either the government bond rate or the corporate bond rate to determine the discount rate.

In its analysis regarding this topic, the CINIF clarified that paragraph 45.5.9 of Mexican FRS D-3 requires the use of corporate bond rates or government bond rates to determine the present value of these long-term employee benefit obligations because the credit risk associated with these instruments is nil or extremely low and consequently, both rates represent the time value of money, and that for this reason the CINIF concluded that either of the two rates should be reliable and appropriate for determining the discount rate.

These improvements are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

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

b) Treatment of remeasurements of the net defined benefit liability

Paragraph 45.4.4 c) of Mexican FRS D-3 previously established that the difference between the final net defined benefit liability determined based on paragraph b) and the expected net defined benefit liability determined based on paragraph a) should be recognized as a remeasurement of the net defined benefit liability in Other Comprehensive Income (OCI), as set forth in section 45.7 of the accounting standard.

The CINIF amended Mexican FRS D-3 to allow entities to elect to recognize the remeasurements referred to in paragraph 45.4.4 in either OCI, as previously required by the accounting standard, or in profit or loss at the time the remeasurements are determined.

The CINIF believes that to option to recognize remeasurements in either OCI or profit or loss is a more practical accounting treatment for this item.

These improvements are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

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

#### 4. Foreign currency position

At December 31, 2018 and 2017, the Company had the following U.S. dollar (Dls.) and Euros (Eur), monetary assets and liabilities, are shown as follows:

	2018	2017
Dollars:		
Assets	Dls. 2,092,195	Dls. 1,888,944
Liabilities	( 3,400,737)	( 3,554,707)
Net liability position	Dls. ( 1,308,542)	Dls. ( 1,665,763)
Euro:		
Assets	Eur -	Eur -
Liabilities	( 2,933,764)	( 2,888,855)
Net liability position	Eur ( 2,933,764)	Eur ( 2,888,855)

At December 31, 2018 and 2017, the Company held no hedge contracts to protect against foreign exchange risks.

At December 31, 2018 and 2017, the Company had the following transactions in the next currencies:

	2018	2017
Sales	Dls. 10,225,204	Dls. 9,719,907
Purchase	Dls. 2,703,772	Dls. 2,405,299
Interest expense	126,757	128,791
Software expenses	59,659	59,976
Maintenance	51,943	31,718
Cutting tools	17,894	4,035
Others expenses	411,844	439,324
Purchase	Eur 798,720	Eur 816,895
Interest expense	76,325	81,886
Cutting tools	95,791	96,717
Travel expenses	35,788	66,426
Maintenance	62,952	22,399
Software expenses	27,812	3,016
Other expenses	487,891	268,748

At December 31, 2018 and 2017, the exchange rate was \$19.68 and \$19.73 Mexican pesos per one U.S. dollar respectively. At the date of issuance of these financial statements, the exchange rate was \$19.0521 per one U.S. dollar.

20.

## 5. Cash

The cash at December 31, 2018 and 2017, is mainly comprised by cash at bank including foreign currency amounts, which are of high liquidity to and are subject to non-significant value change risks. The integration of such balance is shown as follows:

	2018	2017
Cash	\$ 7,220,589	\$ 13,289,618

## 6. Balances and transactions with related parties

a) The main balances with related parties at December 31, 2018 and 2017, are shown as follows:

	2018	2017
Current payable accounts:		
Motherison Techno Precision GmbH	\$ 5,318,840	\$ 1,672,021
MSSL GmbH	53,566	-
Montherson Sumi Infotech and Desing Ltd.	13,042	-
Total payable	\$ 5,385,448	\$ 1,672,021
Long- term accounts payable:		
Motherison Techno Precision GmbH <sup>(1)</sup>	\$ 109,438,914	\$ 127,591,440

<sup>(1)</sup> Corresponds to two loans for an amount of DIs. \$2,487,000 in 2018 and DIs. \$3,087,000 in 2017; and Eur. \$2,690,000 in 2018 and Eur. \$2,840,000 in 2017. These loans accrued an interest rate of 2.75% plus three month of rate LIBOR and 2.75%, respectively. These loans expire on December 31, 2021.

b) The transactions with related parties are shown as follows:

	2018	2017
Interests	\$ 4,153,819	\$ 4,166,778
Services	2,995,870	2,706,500
Other expenses	8,183,077	3,636,359
Travel expenses	761,265	1,402,613
Purchase of machinery and equipment	8,696,412	111,996
Maintenance	642,975	436,820
Cutting tools	1,248,825	444,198
Software	671,694	180,592

## 7. Inventories

The main balances at December 31, 2018 and 2017, are shown as follows:

	2018	2017
Raw material	\$ 6,272,605	\$ 2,873,106
Work in progress	18,968,561	14,516,517
Finish goods	12,920,040	8,954,124
Spare parts for machines	972,514	768,325
	<u>\$ 39,133,720</u>	<u>\$ 27,112,072</u>

## 8. Machinery and equipment

At December 31, 2018 and 2017, this item consists of the following:

	2018	2017	Annual depreciation rate
Components subject to depreciation:			
Machinery and equipment	\$ 60,385,039	\$ 57,852,395	17%
Leasehold improvements	5,545,438	5,545,438	5%
Computer equipment	3,008,151	2,986,145	30%
Office furniture and equipment	813,082	811,396	8%
Transportation equipment	-	120,350	-
Tools	3,184,098	3,027,106	35%
	<u>72,935,808</u>	<u>70,342,830</u>	
Less - cumulative depreciation	<u>( 46,027,865)</u>	<u>( 36,567,384)</u>	
	26,907,943	33,775,446	
Components not subject to depreciation:			
Construction in progress	7,586,978	-	
	<u>\$ 34,494,921</u>	<u>\$ 33,775,446</u>	

Constructions in progress are integrated by machinery and equipment and is expected to be completed in a period of less than one year.

At December 31, 2018 and 2017, depreciation charged to results of operations amounted to \$9,489,074 y \$9,837,307, respectively.

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## 9. Intangible assets

At December 31, 2018 and 2017, this item consists of the following:

	2018	2017	Annual depreciation rate
Components subject to amortization:			
Software	\$ 861,233	\$ 841,233	5%
Less:			
Cumulative depreciation	( 456,195)	( 327,635)	
	<u>\$ 405,038</u>	<u>\$ 513,598</u>	

The amortization recorded in 2018 and 2017, amounts \$128,560 and \$121,685, respectively.

## 10. Leases

The Company has entered into operating lease agreements for the building where its offices and warehouse are located. The agreements is for periods of 7 years starting from March 1st, 2014. As of December 31, 2018 and 2017, the amount paid was \$6,977,738 and \$6,977,738, respectively. The minimum annual lease payments are adjusted for inflation each year as set in the contract. An analysis of the Company's minimum annual lease payments for the next years is as follows:

	2018
2019	\$ 6,977,738
2020	6,977,738
2021	6,977,738
	<u>\$ 20,933,214</u>

## 11. Employees' benefits

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

### a) Pension plan, seniority premium and termination benefits:

	Seniority premium December 31,		Indemnities December 31,		Total December 31,	
	2018	2017	2018	2017	2018	2017
Obligations for Defined Benefits OBD	\$ 45,698	\$ 35,571	\$ 818,225	\$ 795,423	\$ 863,923	\$ 830,994

## b) Net cost of the year to seniority premium and termination benefits:

	Seniority premium December 31,		Indemnities December 31,		Total December 31,	
	2018	2017	2018	2017	2018	2017
Financial cost	\$ 2,668	\$ 986	\$ 59,656	\$ 25,229	\$ 62,324	\$ 26,215
Labor cost of the current service	9,527	5,939	239,866	195,696	249,393	201,635
Advanced payments and reductions	( 8,057)	-	(206,780)	-	( 214,837)	-
Net actuarial earning or loss	5,989	( 14,706)	( 69,940)	( 107,260)	( 63,951)	(121,966)
Total	\$ 10,127	\$ ( 7,781)	\$ 22,802	\$ 113,665	\$ 32,929	\$ 105,884

## c) Main actuarial assumptions used referred at December 31, 2018 and 2017, are as follows:

	2018	2017
Discount rate	9.00%	7.50%
Wage rate rate	5.80%	5.80%
Minimum wage increase	4.00%	4.00%

## 12. Stockholders' equity

The capital stock at December 31, 2017 is composed as follows:

Shares (*)	Description	Amount
50,000	Series "A" fix part without right to withdrawal	\$ 50,000
50,000	Subscribed capital stock	\$ 50,000

(\*) Ordinary nominative shares with para value of \$1 each, totally subscribed and paid in.

For the years ended December 31, 2018 and 2017, the Company obtained a profit of \$2,787,309 and \$4,035,369, respectively, and at December 31, 2018 and 2017 had a deficit of \$55,223,281 and \$58,010,590, respectively. This is a legal cause of dissolution, which any interested party may request to be declared by the courts. However, the main shareholder has expressed its intention to support the company financially so as to allow it to continue in operation as a going concern. As mentioned in Note 1, the Company starts operations in April 2013 and commences productive activities in 2014; therefore, the accumulated losses were caused by pre-operating expenses incurred for the company to be available for work as a going concern. Currently the Company, continued working in order to acquire more clients and orders for sales.

The net income is subject to the legal requirement that at least 5% of the income for each year is intended to increase the legal reserve until it is equal to one fifth of the amount of the capital stock. At December 31, 2018, legal reserve has not been created.



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. However, the Company should not declare any payment of dividends until future income absorb the accumulated losses.

As of 2014, income tax law sets an additional tax of 10% for profit generated as of 2014 to dividends paid to foreign residents and Mexican individuals.

Also, income tax law grants a tax incentive to individuals resident in México who are subject to the additional payment of 10% on dividends or distributed profit.

The incentive is applicable provided such dividends or profit were generated in 2014, 2015, 2016 and are reinvested in the legal entity that generated such profit and consists of a tax credit equal to the amount obtained by applying the distributed dividend or profit, the percentage related to the distribution year as follows:

Year dividend or profit distribution	Percentage applicable to the amount of the dividend or distributed profit
2017	1%
2018	2%
2019 Onwards	5%

The tax credit determined will be creditable only against additional 10% income tax that the entity must withhold and pay and provided all requirements established by income tax law itself are met.

In order to apply the credit must meet the following requirements:

- The entity must identify in its accounts corresponding to earnings or dividends generated in 2014, 2015 and 2016 records and the respective distributions.
- Present in the notes of the financial statements analytical information for the period in which profits were generated, were reinvested or distributed dividends.
- For corporations whose shares are not placed on the Mexican Stock Exchange and implement this incentive should choose to audit their financial statements for tax purposes in terms of Article 32-A of the Tax Code of the Federation.

In the event of an equity reduction, the provisions of the Income Tax Law arrange any excess of stockholders' equity over equity contributions, is accounted with the same tax treatment to that applicable for dividends.

## 13. Analysis of sales

An analysis of the sales nature is shown as follows:

	2018	2017
Sales of finished goods	\$ 196,292,313	\$ 183,256,221
Other income	3,327,091	1,628,082
	<u>\$ 199,619,404</u>	<u>\$ 184,884,303</u>

## 14. Analysis of cost and expenses

	2018	2017
Changes in inventories of finished goods and products in process	\$ 89,477,099	\$ 77,072,818
Wages and salaries	27,274,326	24,075,310
Depreciation (Note 8)	9,617,634	9,958,992
Freight and maneuvers	10,061,532	12,018,535
Leasing	7,638,021	7,612,617
Maintenance and repairment	4,714,985	5,167,786
Tooling	2,788,642	3,322,931
Professional schedules	1,827,580	2,126,670
Travel expenses	2,626,396	2,766,395
Electricity	2,340,362	2,025,003
Outsourced services	10,217,227	5,370,390
Provisions for deferred employees' statutory (Note 16)	( 1,078,169)	( 1,862,078)
Employees' Statutory Profit Sharing (ESPS) (Note 16)	6,347,145	6,220,442
Consumables	861,877	911,582
Non-deductible	778,746	810,900
Security services	801,764	671,932
Telephone	460,148	498,330
Employees' benefits (Note 11)	32,929	105,884
Other	2,895,217	1,943,116
	<u>\$ 179,683,461</u>	<u>\$ 160,817,555</u>

## 15. Income tax

i) For the years ended in December 31, 2018 and 2017, the Company determined a tax profit of \$58,534,016 and \$52,831,546 that corresponded an income tax of \$17,560,206 and \$15,849,464, respectively. The tax income differs from the accounting income, mainly in such items cumulative by the time and deducted differently for accounting and tax purposes, by the recognition of the inflation effects for tax purposes, as well as such items only affecting either the accounting or tax income.

ii) Income tax law establishes that the income tax rate applicable for 2018 and 2017 is 30% on the taxable fiscal profit.

iii) The income tax provision is analyzed as follows:

	2018	2017
Current income tax	\$ ( 17,553,365)	\$ ( 15,849,464)
Excess in provision	-	( 4,055)
Deferred income tax	3,053,364	4,675,356
	<u>\$ ( 14,500,001)</u>	<u>\$ ( 11,178,163)</u>

iv) The reconciliation between statutory and effective rates of income tax is shown below:

	2018	2017
Income before income taxes	\$ 17,296,429	\$ 15,213,532
Income tax legal rate (30%)	30%	30%
Income tax	5,188,929	4,564,060
Plus (less) income tax effect of permanent items:		
Not deductible expenses	9,196,445	8,650,665
Income tax for inflation	( 277,398)	( 558,889)
Others	392,025	( 1,477,673)
Total income tax	<u>\$ 14,500,001</u>	<u>\$ 11,178,163</u>

v) At December 31, 2018 and 2017, the main temporary differences on which the deferred income tax was recognized are analyzed as follows:

	2018	2017
Asset (liability):		
Liability provisions	\$ 54,793,112	\$ 39,406,186
Fixed assets	17,312,958	21,028,544
Intangible assets	( 55,173)	( 55,196)
Employee benefits	406,044	390,567
Employee profit sharing	6,349,424	5,875,064
Deferred statutory profit sharing	( 7,124,112)	( 6,045,943)
Others	( 1,215,821)	( 310,671)
	<u>70,466,432</u>	<u>60,288,551</u>
Income tax rate	30%	30%
Deferred income tax asset net	<u>\$ 21,139,930</u>	<u>\$ 18,086,565</u>

## 16. Caused and deferred Employees' Statutory Profit Sharing (ESPS)

The Company is subject to the ESPS payment which is calculated applying the procedures established in the income tax law. In October 2013 a new income tax law was issued which modifies the procedure for determining the tax base for the calculation of the ESPS, which should be determined based on the provisions of article 9 of the Income Tax Law, in which is considered as taxable income for income tax purposes, without decreasing the ESPS paid nor the amortized tax loss and decreasing the amount of nondeductible exempt wages and historical tax depreciation that would have determined had it been not applied immediately to fixed asset deduction in years prior to 2014.

For the years ended in December 31, 2018 and 2017, the Company determined and ESPS payable of \$6,349,425 and \$6,220,442, respectively. The taxable base of the ESPS differs from the accounting result mainly because, for accounting purposes, the restated depreciation and the accrued exchange fluctuation are recognized while, for ESPS purposes, the historical depreciation and the exchange fluctuation, when due, are recognized to the differences when some items accrue or are deducted from accounting and ESPS purposes, as well as for such items only affecting either the accounting or ESPS of the year.

Provisions for ESPS in 2018 and 2017 are analyzed as follows:

	2018	2017
Deferred ESPS	\$ ( 1,078,169)	\$ ( 1,862,078)
ESPS payable (*)	6,347,145	6,220,442
	<u>\$ 5,268,976</u>	<u>\$ 4,358,364</u>

(\*) Includes \$174,499 of ESPS payable of prior years in 2017.

The main temporary differences on which the deferred ESPS was recognized are analyzed as follows:

	2018	2017
Asset (liability):		
Liability provisions	\$ 54,793,112	\$ 39,406,186
Fixed assets	17,312,958	21,028,544
Intangible assets	( 55,173)	( 55,196)
Employee benefits	406,044	390,567
Others	( 1,215,821)	( 310,671)
	<u>71,241,120</u>	<u>60,459,430</u>
Applicable ESPS rate	10%	10%
Asset deferred ESPS	<u>\$ 7,124,112</u>	<u>\$ 6,045,943</u>

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## 17. Commitments and contingencies

### I. Commitments

As of December 31, 2018, the Company has the following commitments:

- a) Loan agreements with related parties (See Note 6).
- b) Operating lease agreements for the building where its offices and warehouse are located (see Note 10).

### II. Contingencies

- a) In accordance with the Federal Tax Code, the Company's taxes are open to review by the tax authorities for a period of five years and the tax authorities may determine tax differences as a result of this review. Under certain circumstances, this term may be extended to ten years.
- b) Enacted changes made to the Mexican Federal Labor Law that came into effect on December 1, 2012, could have an effect on the Company's financial position. The effects of these changes may vary from a disclosure in the financial statements to the recognition of an additional liability for employee profit sharing or other liabilities related to employee benefits. At December 31, 2018, the Company has evaluated what effects the changes in the labor law may have on its financial information and has concluded that they have had no effect at December 31, 2018. However, this situation may change in the future and so the Company will continue assessing the effects of the changes to the law in the years to come.
- c) In accordance with the Mexican Income Tax Law, companies that carry out transactions with related parties, either domestic or foreign, are subject to certain tax limitations and obligations with respect to the determination of the prices charged, since such prices should be similar to the prices that would have been used with or between independent parties in comparable transactions.

Should the authorities review and reject the Company's intercompany pricing in comparable transactions, they may demand payment of the omitted taxes, plus the respective inflationary restatement and surcharges, as well as fines for amounts of up to 100% of the omitted taxes.



Martha Butron  
Operations Manager

