

# **SMR Automotive Modules Korea Ltd.**

Financial statements  
for the year ended March 31, 2019 and  
the three months period ended March 31, 2018  
with the independent auditor's report

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## **Independent auditor's report**

### **The Shareholders and Board of Directors SMR Automotive Module Korea Ltd.**

#### **Opinion**

We have audited the accompanying financial statements of SMR Automotive Modules Korea Ltd. (the "Company"), which comprise the statements of financial position as of March 31, 2019 and 2018, and the statements of income, statements of changes in equity and statements of cash flows for the year ended March 31, 2019 and the three months period ended March 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Company as of March 31, 2019 and 2018, and its financial performance and its cash flows for the year ended March 31, 2019 and the three months period ended March 31, 2018 in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea.

#### **Basis for opinion**

We conducted our audits in accordance with Korea Auditing Standards (KGAAS). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with Korea Auditing Standards (KGAAS) we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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



July 11, 2019

This audit report is effective as of July 11, 2019, the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's report to the time this report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

# **SMR Automotive Modules Korea Ltd.**

Financial statements  
for the year ended March 31, 2019 and  
the three months period ended March 31, 2018

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

Chang-kyun Han, CEO  
SMR Automotive Module Korea Ltd.

**SMR Automotive Modules Korea Ltd.**  
**Statements of financial position**  
**as of March 31, 2019 and 2018**

(Korean won)

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	₩ 1,816,131,961	₩ 3,917,887,856
Account receivable, net (Note 20)	42,001,564,144	53,457,926,682
Other accounts receivable, net (Note 20)	6,087,863,377	6,981,433,611
Accrued revenues	73,095,891	28,653,555
Short-term loans (Note 20)	16,371,816,850	6,661,899,961
Advance payments	400,000,000	
Financial derivatives assets (Note 13)	63,567,576	84,372,496
Prepaid expenses	290,411,218	250,231,467
Current income tax assets	11,615,520	699,305,948
Deferred tax assets (Note 12)	958,546,503	1,049,682,596
Inventories (Note 5)	10,423,946,248	9,144,541,191
Total current assets	<u>78,498,559,288</u>	<u>82,275,935,363</u>
<b>Non-current assets:</b>		
Investments (Notes 3,4 and 6)	30,403,096,676	25,307,723,359
Property, plant and equipment, net (Notes 7,10 and 19)	37,665,573,835	36,290,871,705
Lease deposits	3,288,297,000	4,239,731,000
Deferred tax assets (Note 12)	1,868,690,662	1,525,852,712
Total non-current assets	<u>73,225,658,173</u>	<u>67,364,178,776</u>
<b>Total assets</b>	<u><u>₩ 151,724,217,461</u></u>	<u><u>₩ 149,640,114,139</u></u>

(Continued)

**SMR Automotive Modules Korea Ltd.**  
**Statements of financial position**  
**as of March 31, 2019 and 2018 (continued)**

(Korean won)

	<b>2019</b>	<b>2018</b>
<b>Liabilities and equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable (Notes 8 and 20)	₩ 47,499,727,345	₩ 47,391,388,183
Other accounts payable (Notes 8 and 20)	8,004,151,997	6,614,128,673
Withholdings	634,088,734	886,001,001
Advances received	392,729,345	140,400,000
Accrued expenses	2,692,003,811	2,812,437,607
Income taxes payable	-	143,965,276
Product warranty liability (Note 9)	2,296,856,374	2,580,874,063
Current portion of long-term capital lease liabilities (Notes 10 and 19)	822,056,020	1,744,379,073
Total current liabilities	<u>62,341,613,626</u>	<u>62,313,573,876</u>
<b>Non-current liabilities:</b>		
Allowance for employee retirement benefits (Note 11)	1,249,140,298	3,031,639,983
Long-term capital lease liabilities (Note 10 and 19)	604,147,761	842,077,249
Total non-current liabilities	<u>1,853,288,059</u>	<u>3,873,717,232</u>
<b>Total liabilities</b>	<u><b>64,194,901,685</b></u>	<u><b>66,187,291,108</b></u>
<b>Equity</b>		
Issued capital (Note 14)	4,026,780,000	4,026,780,000
Capital surplus	477,397,570	477,397,570
Capital adjustments (Note 14)	(12,000,018,660)	(12,000,018,660)
Accumulated other comprehensive income		
Net loss on valuation of available-for-sale financial assets (Note 4)	(139,307,193)	(141,206,805)
Retained earnings (Note 15)		
Legal reserve	3,570,000,000	3,570,000,000
Retained earnings before appropriations	91,594,464,059	87,519,870,926
<b>Total equity</b>	<u><b>87,529,315,776</b></u>	<u><b>83,452,823,031</b></u>
<b>Total liabilities and equity</b>	<u><b>₩ 151,724,217,461</b></u>	<u><b>₩ 149,640,114,139</b></u>

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

**SMR Automotive Modules Korea Ltd.**

**Statements of income**

**for the year ended March 31, 2019 and the three months period ended March 31, 2018**

(Korean won)

	2019	2018
Sales (Note 20)	₩ 320,820,247,917	₩ 84,033,006,809
Cost of sales (Notes 18 and 20)	297,992,025,701	74,975,649,512
<b>Gross profit</b>	<b>22,828,222,216</b>	<b>9,057,357,297</b>
Selling and administrative expenses (Notes 17 and 18)	27,972,198,097	7,308,881,043
<b>Operating profit(loss)</b>	<b>(5,143,975,881)</b>	<b>1,748,476,254</b>
Non-operating income		
Rental income	4,600,000	9,200,000
Interest income	591,671,905	64,142,742
Gain on foreign currency transactions	539,509,984	125,484,017
Gain on foreign currency translation	100,417,562	512,061,039
Commission earned	1,160,363,419	1,502,897,720
Gain on derivatives transactions	234,154,142	76,746,158
Gain on disposal of property, plant and equipment	660,247,553	53,722,579
Gain on valuation of derivatives	46,890,938	84,372,496
Valuation gain using equity method (Note 6)	5,092,937,917	639,552,003
Reversal of allowance for doubtful accounts	136,762,339	-
Miscellaneous income	4,771,225,151	668,903,547
	13,338,780,910	3,737,082,301
Non-operating expense		
Interest expense	168,911,262	35,589,498
Loss on foreign currency transactions	1,825,739,043	87,570,321
Loss on foreign currency translation	100,794,069	130,884,270
Donations	266,500,000	500,000
Loss on disposal of property, plant and equipment	3,424,500	-
Loss on derivatives transactions	-	7,560,715
Miscellaneous losses	114,961,969	8
	2,480,330,843	262,104,812
<b>Profit before income taxes</b>	<b>5,714,474,186</b>	<b>5,223,453,743</b>
Income tax expense(benefit) (Note 12)	(1,060,118,947)	984,114,447
<b>Net income</b>	<b>₩ 6,774,593,133</b>	<b>₩ 4,239,339,296</b>

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



**SMR Automotive Modules Korea Ltd.**  
**Statements of changes in equity**  
**for the year ended March 31, 2019 and the three months period ended March 31, 2018**  
(Korean won)

	Issued capital	Capital surplus	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total
As of January 1, 2018	₩ 4,026,780,000	₩ 477,397,570	₩ (12,000,018,660)	₩ (139,025,769)	₩ 91,850,531,630	₩ 84,215,664,771
Dividends	-	-	-	-	(5,000,000,000)	(5,000,000,000)
Net loss on valuation of available-for-sale financial assets	-	-	-	(2,181,036)	-	(2,181,036)
Net income	-	-	-	-	4,239,339,296	4,239,339,296
As of March 31, 2018	₩ 4,026,780,000	₩ 477,397,570	₩ (12,000,018,660)	₩ (141,206,805)	₩ 91,089,870,926	₩ 83,452,823,031
As of April 1, 2018	₩ 4,026,780,000	₩ 477,397,570	₩ (12,000,018,660)	₩ (141,206,805)	₩ 91,089,870,926	₩ 83,452,823,031
Dividends (Note 16)	-	-	-	-	(2,700,000,000)	(2,700,000,000)
Net income on valuation of available-for-sale financial assets	-	-	-	1,899,612	-	1,899,612
Net income	-	-	-	-	6,774,593,133	6,774,593,133
As of March 31, 2019	₩ 4,026,780,000	₩ 477,397,570	₩ (12,000,018,660)	₩ (139,307,193)	₩ 95,164,464,059	₩ 87,529,315,776

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

**SMR Automotive Modules Korea Ltd.**
**Statements of cash flows**
**for the year ended March 31, 2019 and the three months period ended March 31, 2018**

(Korean won)

	2019	2018
<b>Cash flows from operating activities:</b>		
Net income	₩ 6,774,593,133	₩ 4,239,339,296
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:		
Severance benefits	2,821,526,629	(191,849,208)
Depreciation of property and equipment	7,368,848,102	1,921,878,008
Warranty expense	1,305,876,523	394,678,350
Bad debt expense	30,204,852	-
Loss on foreign currency translation	100,794,069	37,215,557
Loss on disposal of property, plant and equipment	3,424,500	-
Gain on foreign currency translation	(100,417,562)	(512,061,039)
Gain on valuation of equity method investments	(5,092,937,917)	(639,552,003)
Gain on disposal of property, plant and equipment	(660,247,553)	(53,722,579)
Gain on valuation of derivatives	(46,890,938)	(84,372,496)
Reversal of other allowance	(136,762,339)	-
Changes in operating assets and liabilities:		
Trade accounts receivable	11,508,681,899	(3,359,074,036)
Other accounts receivable	1,041,888,354	(2,492,391,368)
Accrued revenues	(44,442,270)	(28,653,532)
Prepaid expenses	(40,179,751)	(22,387,869)
Advance payments	(400,000,000)	-
Prepaid tax	344,852,478	(65,554,664)
Deferred tax assets	90,600,305	840,149,187
Inventories	(1,279,405,057)	5,480,331,378
Trade accounts payable	(211,210,170)	6,636,840,812
Other accounts payable	275,790,306	337,781,960
Withholdings	(251,912,267)	66,350,111
Advances received	252,329,345	-
Accrued expenses	(120,433,796)	(1,804,427,430)
Income taxes payable	(143,965,276)	(476,846,579)
Long-term capital lease liabilities	671,000,000	(678,942,285)
Financial derivatives	-	(224,958,294)
Product warranty liability	(1,303,910,391)	(283,381,957)
Payments of severance and retirement benefits	(212,612,737)	-
Deposits for severance insurance	(4,391,413,577)	-
Total adjustments	11,379,075,761	4,797,050,024
Net cash flows provided by operating activities	18,153,668,894	9,036,389,320

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**SMR Automotive Modules Korea Ltd.**

**Statements of cash flows**

**for the year ended March 31, 2019 and the three months period ended March 31, 2018 (continued)**

(Korean won)

	<b>2019</b>	<b>2018</b>
<b>Cash flows from investing activities:</b>		
Decrease in short-term financial instruments	-	6,000,000,000
Decrease in lease deposit	951,434,000	203,349,000
Increase in lease deposit	-	(54,000,000)
Acquisition of property, plant and equipment	(8,893,680,910)	(1,893,581,828)
Disposal of property, plant and equipment	1,920,051,483	528,618,191
Disposal of derivatives	67,695,858	-
Increase in short-term loans	(9,769,672,679)	(6,661,899,961)
Net cash flows used in investing activities	(15,724,172,248)	(1,877,514,598)
<b>Cash flows from financing activities:</b>		
Repayment of lease liability	(1,831,252,541)	-
Dividends paid	(2,700,000,000)	(5,000,000,000)
Net cash flows used in financing activities	(4,531,252,541)	(5,000,000,000)
<b>Net increase (decrease) in cash and cash equivalents</b>	(2,101,755,895)	2,158,874,722
<b>Cash and cash equivalents as of April 1, 2018 and January 1, 2018</b>	3,917,887,856	1,759,013,134
<b>Cash and cash equivalents as of March 31, 2019 and 2018</b>	₩ 1,816,131,961	₩ 3,917,887,856

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

## **1. Corporate information**

SMR Automotive Modules Korea Ltd. (the "Company") was incorporated on November 15, 1999 under the laws of the Republic of Korea as a result of a spin-off from Poong Jeong Ind. Co., Ltd., to engage in manufacturing and selling automotive rear mirrors.

SMR Automotive Mirror System Holding Deutschland GmbH (the "SMR Holding Germany GmbH"), which is controlled by MSSL India, owns 89.86% of the Company's interest.

Based on the resolution made at the annual shareholders' meeting on March 30, 2018, the Company changed its fiscal year end from December 31 to March 31 effective from January 1, 2018. Accordingly, the financial statements as of March 31, 2018 and for the three months then ended, present the financial position of the Company as of March 31, 2018, and its financial performance and cash flows for the three months then ended.

## **2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **Basis of financial statement preparation**

The Company maintains its official accounting records in Korean won and prepares financial statements in the Korean language in conformity with Accounting Standards for Non-Public Entities in the Republic of Korea ("Korean Accounting Standards") for annual periods beginning on or after January 1, 2011. Korean Accounting Standards apply to those companies which are subject to the *Act on External Audit of Stock Companies* but do not prepare their financial statements in accordance with Korean International Financial Reporting Standards ("KIFRS"). The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

### **2.1 Cash and Cash Equivalents**

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

### **2.2 Financial Assets**

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

### **2.3 Allowance for Doubtful Accounts**

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

## **2.4 Investments in Securities**

Securities that are acquired and held principally for the purpose of selling them in the near term are classified as trading securities. Debt securities which carry fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Company has the positive intention and ability to hold to maturity. Securities that are not classified as either trading or held-to-maturity are classified as available-for-sale securities. The acquisition cost of securities is the market price provided for the acquisition of securities, and other costs. Acquisition costs for trading securities are measured at fair value of those securities at the time of acquisition.

Held-to-maturity securities are measured at amortized cost while available-for-sale and trading securities are measured at fair value. However, non-marketable securities, classified as available-for-sale securities, are carried at cost when the fair values are not readily determinable.

In regard to securities traded in an active market including listed stocks, the Company uses a quoted price as its fair value.

Gains and losses related to trading securities are recognized in the statement of income, while unrealized gains and losses of available-for-sale securities are recognized under other comprehensive income and expenses. Realized gains and losses on available-for-sale securities are recognized in the statement of income.

In case that the estimated amount recoverable from the securities ("recoverable amount") is less than the amortized cost of the debt security or the acquisition cost of the equity security, the Company considers the necessity to recognize impairment losses. The Company assesses at the end of each reporting period whether there is objective evidence for impairment. If there is objective evidence for impairment, in the absence of evidence to the contrary, the recoverable amount is estimated and impairment losses are recognized in profit and losses.

## **2.5 Equity Method Investments**

Investments in entities over which the Company has control or significant influence are accounted for using the equity method.

Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it suspends recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill which is amortized over its useful life of 20 years using the straight-line method. Conversely, negative goodwill represents the excess of the Company's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment. Negative goodwill is recorded to the extent of the fair value of acquired non-monetary assets and recognized as income using the straight-line method over the remaining weighted-average useful life of those acquired non-monetary assets. The amount of negative goodwill in excess of the fair value of acquired non-monetary assets is recognized as income immediately.

The Company's share in the investee's unrealized gains and losses resulting from transactions between the Company and its investee are eliminated to the extent of the interest in the investee.

## **2.6 Impairment of assets**

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

## **2.7 Property, Plant and Equipment**

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

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

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

	<u>Estimated Useful Lives</u>	<u>Depreciation Method</u>
Buildings	40 years	Straight-Line Method
Structures	15 years	Straight-Line Method
Machinery, equipment and vehicles	3 ~ 6 years	Straight-Line Method
Tooling	6 years	Straight-Line Method
Moldings	4 years	Straight-Line Method
Fixture and furniture	6 years	Straight-Line Method

## **2.8 Provision for Severance Benefits**

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

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

## **2.9 Revenue Recognition**

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

## **2.10 Foreign Currency Translation**

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

### **2.11 Income Tax and Deferred Income Tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. Deferred income taxes are provided using the liability method for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse, and are classified as current or non-current, respectively, based on the classification of the related asset or liability in the statement of financial position. In addition, current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity (Note 12).

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

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

### **2.12 Basic Earning per share**

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

### **2.13 Derivatives**

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

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

### **2.14 Inventories**

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

When a decline in the value of inventory indicates that its cost exceeds market value, market value is the book value. And accordingly, the loss on valuation which is recognized in cost of sales amount to ₩128,943 thousand as of March 31, 2019. When the market value becomes higher than the book value, the valuation loss is reversed to the extent of the original book value and accordingly, the valuation loss reversed and deducted from cost of sales amount to ₩99,658 thousand as of March 31, 2018.

## 2.15 Provisions and Contingent Liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is used only for expenditures for which the provision was originally recognized. If the effect of the time value of money is material, provisions are stated at present value.

A contingent liability is disclosed, but not recognized when it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Meanwhile, Payment guarantees provided to others or similar guarantees and important pending case are disclosed although there is little chance of a release of resources to fulfill the current obligations as a result of past events or transactions.

## 2.16 Finance Leases

A lease is accounted for as either a capital lease or an operating lease. A lease is recognized as a capital lease if it transfers substantially to the Company all the risks and rewards incidental to ownership of the leased asset (Note 10). Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments and recognized as finance lease assets and finance lease liabilities. Minimum lease payments, net of guaranteed residual value, for each period is allocated as repayments between interest expenses and lease liabilities. Interest expenses are calculated using effective-interest method.

## 2.17 Significant judgments and accounting estimates

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

## 3. Restricted deposits

Restricted deposits as of March 31, 2019 and 2018 consist of the follows (Korean won in thousands):

	Financial institution	2019	2018	Description
Long-term financial instruments	Industrial Bank of Korea	₩ 2,000	₩ 2,000	Deposits for checking accounts

## 4. Available-for-sale financial assets

Details of available-for-sale financial assets as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	Classified	2019	2018
Non-current AFS financial assets	Listed securities	₩ 92,004	₩ 89,569



**SMR Automotive Modules Korea Ltd.**  
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**5. Inventories**

Inventories as of March 31, 2019 and 2018 consist of the follows (Korean won in thousands):

	2019		2018	
Finished goods	₩	5,330,834	₩	4,525,013
Work in-process		989,178		1,036,569
Raw materials		4,800,544		3,927,467
Materials in transit		-		223,159
		11,120,556		9,712,208
Less: Valuation allowance		(696,610)		(567,667)
	₩	10,423,946	₩	9,144,541

**6. Equity method investments**

Investments in equity securities accounted for using the equity method as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	2019			
	Ownership (%)	Acquisition cost	Proportionate net asset value	Book value
SMR Hyosang Automotive Ltd.	100%	₩ 2,847,076	₩ 30,333,891	₩ 30,309,093

  

	2018			
	Ownership (%)	Acquisition cost	Proportionate net asset value	Book value
SMR Hyosang Automotive Ltd.	100%	₩ 2,847,076	₩ 25,240,953	₩ 25,216,155

Changes in equity method accounted investment stocks for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019			
	Beginning	Valuation gain(loss)	Other change	Ending
SMR Hyosang Automotive Ltd.	₩ 25,216,155	₩ 5,092,938	₩ -	₩ 30,309,093

  

	2018			
	Beginning	Valuation gain(loss)	Other change	Ending
SMR Hyosang Automotive Ltd.	₩ 24,576,603	₩ 639,552	₩ -	₩ 25,216,155

Summary of the financial information of the investee as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	2019			
	Total assets	Total liabilities	Sales	Net income
SMR Hyosang Automotive Ltd.	₩ 61,058,238	₩ 30,724,347	₩ 110,829,538	₩ 5,092,938

  

	2018			
	Total assets	Total liabilities	Sales	Net income
SMR Hyosang Automotive Ltd.	₩ 55,074,601	₩ 29,833,648	₩ 25,766,282	₩ 639,552

**SMR Automotive Modules Korea Ltd.**  
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**7. Property, plant and equipment**

Changes in property, plant and equipment for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019						Total
	Land	Buildings & structures	Machinery & vehicles	Equipment & tooling	Furniture & fixtures	Construction-in-progress	
Beginning	₩ 3,363,620	₩ 10,484,713	₩ 9,829,762	₩ 5,694,806	₩ 5,582,782	₩ 1,335,189	₩ 36,290,872
Acquisition	-	671,187	19,641	236,260	-	9,079,690	10,006,778
Disposal	-	-	(309,132)	(941,204)	(12,893)	-	(1,263,229)
Depreciation	-	(366,208)	(3,226,688)	(2,336,586)	(1,439,365)	-	(7,368,847)
Transfer	-	-	3,855,563	3,985,351	1,296,703	(9,137,617)	-
Ending	3,363,620	10,789,692	10,169,146	6,638,627	5,427,227	1,277,262	37,665,574
Acquisition cost	3,363,620	13,966,047	35,909,923	42,753,049	14,388,821	1,277,262	111,658,722
Accumulated depreciation	-	(3,176,355)	(25,740,777)	(36,114,422)	(8,961,594)	-	(73,993,148)
	<u>₩ 3,363,620</u>	<u>₩ 10,789,692</u>	<u>₩ 10,169,146</u>	<u>₩ 6,638,627</u>	<u>₩ 5,427,227</u>	<u>₩ 1,277,262</u>	<u>₩ 37,665,574</u>

  

	2018						Total
	Land	Buildings & structures	Machinery & vehicles	Equipment & tooling	Furniture & fixtures	Construction-in-progress	
Beginning	₩ 3,363,620	₩ 10,441,912	₩ 10,360,195	₩ 5,750,731	₩ 4,317,815	₩ 2,401,991	₩ 36,636,264
Acquisition	-	-	-	-	-	2,051,381	2,051,381
Disposal	-	-	(106,390)	(362,035)	(6,470)	-	(474,895)
Depreciation	-	(86,517)	(849,419)	(644,388)	(3,41,554)	-	(1,921,878)
Transfer	-	129,318	425,376	950,498	1,612,991	(3,118,183)	-
Ending	3,363,620	10,484,713	9,829,762	5,694,806	5,582,782	1,335,189	36,290,872
Acquisition cost	3,363,620	13,294,859	32,976,353	39,994,888	13,112,318	1,335,189	104,077,227
Accumulated depreciation	-	(2,810,146)	(23,146,591)	(34,300,082)	(7,529,536)	-	(67,786,355)
	<u>₩ 3,363,620</u>	<u>₩ 10,484,713</u>	<u>₩ 9,829,762</u>	<u>₩ 5,694,806</u>	<u>₩ 5,582,782</u>	<u>₩ 1,335,189</u>	<u>₩ 36,290,872</u>

As of March 31, 2019, the value of the Company's land, as determined by the government for property tax assessment purposes, is ₩5,508 million (2018: ₩5,453 million).

As of March 31, 2019, property, plant and equipment and inventories are insured against fire and other casualty losses for up to ₩295,733 million (2018: ₩135,810 million).

**8. Maturity analysis of trade accounts and notes payable, and other accounts payable**

The aging analysis of the Company's trade and other receivables as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	2019		2018	
	1-3 months	3-6 months	1-3 months	3-6 months
Trade accounts and notes payable	₩ 47,499,727	₩ -	₩ 47,337,944	₩ 53,444
Other accounts payable	8,004,152	-	6,614,129	-

## 9. Provisions

Provisions as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	2019		
	Beginning	Increase (decrease)	Ending
Warranty provision (*1)	₩ 2,294,890	₩ (226,359)	₩ 2,068,531
Purchasing provision	285,983	(57,658)	228,325
	₩ 2,580,873	₩ (284,017)	₩ 2,296,856

(\*1) A warranty provision is accrued for the estimated costs of future warranty claims over warranty period (3 years) based on historical experience.

	2018			
	Beginning	Increase (decrease)	Transfer	Ending
Warranty provision	₩ 2,339,097	₩ (44,207)	₩ -	₩ 2,294,890
Purchasing provision	-	155,503	130,480	285,983
	₩ 2,339,097	₩ 111,296	₩ 130,480	₩ 2,580,873

## 10. Finance leases

Details of finance lease assets as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	2019	2018
Acquisition cost	₩ 8,305,565	₩ 7,986,565
Less: Accumulated depreciation	(4,784,047)	(3,651,874)
	₩ 3,521,518	₩ 4,334,691

Future minimum lease payments as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	2019		2018	
	Minimum lease payment	Present value	Minimum lease payment	Present value
No later than 1 year	₩ 853,250	₩ 822,056	₩ 1,796,976	₩ 1,744,379
Later than 1 year and no later than 5 years	621,572	604,148	861,027	842,077
	₩ 1,474,822	₩ 1,426,204	₩ 2,658,003	₩ 2,586,456

## **11. Severance and retirement benefits**

Changes in provisions for severance and retirement benefits for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019	2018
Beginning balance	₩ 12,470,532	₩ 12,720,558
Provision during the year	2,821,527	(191,849)
Payments during the year	(2,204,287)	(58,177)
	<u>13,087,772</u>	<u>12,470,532</u>
Presented net of:		
Insurance deposits	(11,838,632)	(9,438,892)
Ending balance	<u>₩ 1,249,140</u>	<u>₩ 3,031,640</u>

As of March 31, 2019, the Company estimates severance payable to all employees to be ₩13,088 million (March 31, 2018: ₩12,471 million) and records the corresponding amount as provision for severance benefits. Also, the Company funded 90.5% (2018: 75.6%) of severance payable through severance insurance deposits with Industrial Bank of Korea.

Changes in the fair value of plan assets for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019	2018
Beginning balance	₩ 9,438,892	₩ 9,725,336
Employer contributions	4,200,000	-
Benefits paid	(1,991,674)	(286,444)
Actual return on plan assets	191,414	-
Ending balance	<u>₩ 11,838,632</u>	<u>₩ 9,438,892</u>

As of March 31, 2019, the fair values of the plan assets are identical to their book values.

## **12. Income taxes**

The major components of income tax expenses for the year ended March 31, 2019 and three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019	2018
Current income taxes	₩ 136,778	₩ 143,965
Deferred income tax due to temporary differences	(251,702)	839,534
Income taxes recognized directly to equity	(536)	615
Tax refunds	(944,659)	-
Income tax expense(benefit)	<u>₩ (1,060,119)</u>	<u>₩ 984,114</u>

## 12. Income taxes (cont'd)

A reconciliation of profit (loss) before income taxes at the Korea statutory tax rate to income tax expenses at the effective income tax rate of the Company for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019	2018
Profit before income taxes	₩ 5,714,474	₩ 5,223,454
Tax at the statutory income tax rate	1,235,184	256,173
Adjustments:		
1. Income not subject to tax	140,634	16,429
2. Deferred tax assets not recognized	(1,120,446)	140,701
3. Utilization of previously unrecognized tax loss carry forwards	(90,560)	551,545
4. Tax reductions	(508,592)	(3,211)
5. Tax refunds	(944,659)	-
6. Others	228,320	22,477
Income taxes expense (benefit)	(1,060,119)	984,114
Provision for income taxes at the effective income tax rate(*)	- %	18.84%

(\*) As the Company did not incur income tax expense for the current year, the effective tax rate was not calculated.

Significant changes in tax loss carryforwards, cumulative temporary differences and deferred income tax assets and liabilities for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019			Deferred income taxes	
	Apr. 1, 2018	Net changes	Mar. 31, 2019	Current	Non-current
Depreciation	₩ 799,978	₩ 870,425	₩ 1,670,403	₩ -	₩ 367,489
Warranty provision	2,294,890	(226,359)	2,068,531	455,077	-
Loss from inventory revaluation	567,666	128,943	696,609	153,254	-
Allowance for doubtful accounts	193,765	-	193,765	42,628	-
Purchasing provision	285,983	(69,900)	216,083	47,538	-
Equity method investments	(22,369,079)	(5,092,938)	(27,462,017)	-	-
Provision for severance benefits	12,470,532	617,240	13,087,772	-	2,879,310
Insurance deposits	(9,438,891)	(2,399,741)	(11,838,632)	-	(2,604,499)
Others	1,275,873	(882,335)	393,538	47,287	39,292
Tax loss carry forwards	999,550	(29,603)	969,947	-	213,388
Carry forwarded tax credit	423,169	550,542	973,711	-	973,711
Carry forwarded donation	334,140	632,963	967,103	212,763	-
	₩ (12,162,424)	₩ (5,900,763)	₩ (18,063,187)	₩ 958,547	₩ 1,868,691

## 12. Income taxes (cont'd)

	2018					
	Jan. 1, 2018	Net changes	Mar. 31, 2018	Deferred income taxes		
				Current	Non-current	
Depreciation	₩ 608,946	₩ 191,032	₩ 799,977	₩ -	₩ 175,995	
Warranty provision	2,339,097	(44,207)	2,294,890	504,876	-	
Loss from inventory revaluation	667,339	(99,673)	567,666	124,886	-	
Allowance for doubtful accounts	193,765	-	193,769	42,628	-	
Trade accounts payable	130,480	155,503	285,984	62,916	-	
Equity method investments	(21,729,527)	(639,552)	(22,369,379)	-	-	
Provision for severance benefits	12,720,559	(250,027)	12,470,532	-	2,743,517	
Insurance deposits	(9,725,336)	286,445	(9,438,892)	-	(2,076,556)	
Payment guarantees	1,283,681	(1,283,681)	-	-	-	
Others	2,369,376	(1,093,503)	1,275,874	240,865	39,828	
Tax loss carry forwards	2,583,628	(1,584,078)	999,551	-	219,901	
Carry forwarded tax credit	462,112	(38,943)	423,168	-	423,168	
Carry forwarded donation	251,000	83,140	334,140	73,511	-	
	₩ (7,844,880)	₩ (4,317,544)	₩ (12,162,424)	₩ 1,049,682	₩ 1,525,853	

As of March 31, 2019, the cumulative temporary differences are calculated using the expected future tax rate (22%) for the year in which the temporary difference is expected to expire.

The future feasibility of deferred tax assets is assessed by taking into account various factors including the Company's ability to generate taxable income during the period in which the temporary difference is realized, the overall economic environment and industry outlook. The Company reviews these items periodically and recognizes deferred income tax assets as it is probable that all deductible temporary differences will be realized as of the balance sheet date. On the other hand, temporary differences related to equity method investments are not recognized if deferred tax assets and liabilities are not expected to be realized in the foreseeable future.

The gross balances of deferred tax assets and liabilities as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	2019			2018		
	Deferred tax assets	Deferred tax liabilities	Net assets (liabilities)	Deferred tax assets	Deferred tax liabilities	Net assets (liabilities)
Current	₩ 1,060,531	₩ (101,984)	₩ 958,547	₩ 1,055,986	₩ (6,304)	₩ 1,049,682
Non - current	5,144,139	(3,275,448)	1,868,691	4,280,141	(2,754,288)	1,525,853

## 13. Commitments and contingencies

As of March 31, 2019, one blank note is pledged to Kia Motors in regards to the tooling usage agreement.

As of March 31, 2019, the outstanding amount of account receivables sold by the Company to IBK is ₩1,978,412 thousand.

As of March 31, 2019, the Company has trade financing agreements with Industrial Bank of Korea amounting to ₩20,000 million and USD 1,500,000 for derivatives.

The Company has entered into currency forward contracts to hedge the exchange rate risk and the related gain or loss is recognized in profit or loss.

### 13. Commitments and contingencies (cont'd)

The balances of the Company's derivative financial instruments as of March 31, 2019 and 2018 are presented as follows (Korean won in thousands):

Financial institution	Spot date	Maturity date	Contracted exchange rate	2019		Currency to buy	Derivative asset	Derivative liability
				Currency to sell				
Industrial Bank of Korea	2019-01-02	2019-12-12	₩ 1,302.73	₩ 6,513,650		EUR 5,000,000	₩ 63,568	-

  

Financial institution	Spot date	Maturity date	Contracted exchange rate	2018		Currency to buy	Derivative asset	Derivative liability
				Currency to sell				
Industrial Bank of Korea	2018-03-23	2018-12-21	₩ 1,334.37	₩ 6,721,850		EUR 5,000,000	₩ 84,372	-

### 14. Capital stock

The Company is authorized to issue 10 million shares with the par value per share of ₩5,000. As of March 31, 2019, the Company has issued 805,356 shares of common stock.

The Company acquired 81,660 shares of the Company's stock held by former CEO and recorded them as treasury stock (book value: ₩12,000 million).

### 15. Statement of appropriation of retained earnings

The statements of appropriations of retained earnings of the Company for the year ended March 31, 2019 and three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019	2018
Retained earnings before appropriations:		
Unappropriated retained earnings carried forward from the prior year	₩ 87,519,871	₩ 83,280,532
Net income	6,774,593	4,239,339
	<u>94,294,464</u>	<u>87,519,871</u>
Appropriations :		
Cash dividends	2,700,000	-
Dividends per share		
Common stock :	2,700,000	-
* ₩3,731 as of March 31, 2019		
Unappropriated retained earnings to be carried forward to the next year	<u>₩ 91,594,464</u>	<u>₩ 87,519,871</u>

### 16. Dividends

The dividends of the Company for the year ended March 31, 2019 and three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019	2018
Number of shares eligible for dividends: Common stock	723,696	723,696
Dividend rate	75%	-
Dividend amount	2,700,000	-
Dividend payout ratio (Dividends/Net income)	39.85%	-

## 17. Selling and administrative expenses

Selling and administrative expenses for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	Current	Prior
Salaries and wages	₩ 8,236,789	₩ 1,919,990
Severance benefits	683,672	(42,938)
Employee benefits	1,222,299	253,988
Depreciation	1,045,739	255,930
Freight expenses	4,498,149	1,092,544
Supplies expenses	35,985	270,256
General development expense	819,461	493,108
Commissions	5,794,867	1,754,838
Exports expenses	333,242	54,268
Warranty expenses	1,305,877	394,678
Packing expenses	1,039,801	411,252
Bad debts expense (reversal)	30,205	-
Others	2,926,112	450,966
	<u>₩ 27,972,198</u>	<u>₩ 7,308,880</u>

## 18. Value added information

The "value added" items as defined by Korean Accounting Standards, which are required to be disclosed by the Company for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	Current	Prior
Labor costs	₩ 41,809,708	₩ 10,097,884
Severance benefits	2,821,527	2,368,830
Employee benefits	5,431,286	4,922,701
Rental expense	1,517,993	315,947
Taxes and dues	389,174	261,761
Depreciation	7,368,848	7,142,455
	<u>₩ 59,338,536</u>	<u>₩ 13,586,832</u>

## 19. Supplementary cash flow information

Significant transactions not involving cash flows for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	Current	Prior
Increase in other accounts payables due to acquisition of property, plant and equipment	₩ 1,113,097	₩ 1,426,134
Replacement of construction-in-progress	9,137,617	3,118,183
Transfer of current portion of capital lease liabilities	755,061	797,242
Transfer of trade accounts payables to provisions	-	130,480



## 20. Related party transactions

As of March 31, 2019 and 2018, the parent company is SMR Holding Germany GmbH (percentage of ownership: 89.86%), the intermediate parent company is SMR Automotive Mirrors UK Limited, and the ultimate parent company is MSSL Global Wiring Limited.

Other related parties are SMR Group-related companies, such as SMR Automotive Australia Pty Ltd.

The subsidiaries as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	Percentage of ownership (%)	
	2019	2018
SMR Hyosang Automotive Ltd.	100	100

Sales and purchases with related companies for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019		2018	
	Sales	Purchases	Sales	Purchases
Intermediate Parent company				
SMR Automotive Mirrors UK Limited	₩ 2,582,041	₩ -	₩ 825,353	₩ -
Subsidiaries				
SMR Hyosang Automotive Ltd.	134,012	77,426,934	-	18,688,101
Other Related parties				
SMR Automotive (Langfang) Co., Limited	4,401,610	5,822,571	1,181,055	-
SMR Automotive Systems India Ltd.	2,554,667	539	237,720	-
SMR Automotive Yangcheng Co., Ltd.	2,920,468	837,314	948,231	-
SMR Automotive Systems U.S.A Inc.	4,092,201	-	1,230,473	-
SMR Automotive Mirror Technology, Hungary BT	9,645,566	-	3,152,774	-
SMR Automotive Brasil Ltda.	239,649	-	50,021	-
SMR Automotive Thailand Co., Ltd.	5,338	-	1,369	-
SMR Automotive Australia Pty., Ltd.	-	8,231	-	4,752
Others	401,445	4,925,603	4,613	1,603,727
	<u>₩ 26,976,997</u>	<u>₩ 89,021,192</u>	<u>₩ 7,631,609</u>	<u>₩ 20,296,580</u>

**20. Related party transactions (cont'd)**

Receivables and payables with related parties as of March 31, 2019 and 2018 are as follows (Korean won in thousands):

	2019			
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
Intermediate parent company				
SMR Automotive Mirrors UK Limited	₩ 667,558	₩ -	₩ -	₩ -
Subsidiaries				
SMR Hyosang Automotive Ltd.	-	10,334,834	5,782,297	-
Other related parties				
SMR Automotive (Langfang) Co., Limited.	2,615,101	524,982	595,699	-
SMR Automotive Yangcheng Co., Ltd.	2,339,906	43,478	120,271	-
SMR Automotive Systems U.S.A Inc.	367,434	-	-	43,752
SMR Automotive Mirror Technology, Hungary BT	1,808,714	647,866	-	-
SMR Automotive Systems India Ltd.	964,240	14,642	-	3,362
SMR Automotive Thailand Co., Ltd.	123	-	-	-
SMR Automotive Brasil Ltda.	86,081	-	-	-
SMR Patent	-	360	-	-
SMP Deutschland GmbH	-	6,371,817	-	-
Others	69,339	-	-	523,026
	<u>₩ 8,918,496</u>	<u>₩ 17,937,979</u>	<u>₩ 6,498,267</u>	<u>₩ 570,140</u>
2018				
	Receivables		Payables	
	Trade receivables	Other receivables	Trade payables	Other payables
Intermediate parent company				
SMR Automotive Mirrors UK Limited	₩ 553,751	₩ -	₩ 32	₩ -
Subsidiaries				
SMR Hyosang Automotive Ltd.	-	330,000	5,849,547	-
Other related parties				
SMR Automotive (Langfang) Co., Limited.	15,625,705	269,681	-	-
SMR Automotive Yangcheng Co., Ltd.	1,974,113	11,476	-	-
SMR Automotive Systems U.S.A Inc.	487,184	-	-	3,131
SMR Automotive Mirror Technology, Hungary BT	1,400,651	24,155	-	3,517
SMR Automotive Australia Pty Ltd.	289,547	23,390	-	9,012
SMR Automotive Systems India Ltd.	1,361	-	-	-
SMR Automotive Thailand Co., Ltd.	37,077	-	-	-
SMR Automotive Brasil Ltda.	-	7,441	-	7,943
SMR Patent	-	6,661,900	-	-
Others	4,515	-	-	761,751
	<u>₩ 20,373,904</u>	<u>₩ 7,328,043</u>	<u>₩ 5,849,579</u>	<u>₩ 785,354</u>

## 20. Related Party Transactions (cont'd)

Fund transactions with related parties for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	Name of company	2019		2018	
		Loans	Repayments	Loans	Repayments
Subsidiaries	SMR Hyosang Automotive Ltd.	₩ 10,000,000	₩ -	₩ -	₩ -
Other Related parties	SMP Deutschland GmbH	6,371,817	6,661,900	6,661,900	-
		<u>₩ 16,371,817</u>	<u>₩ 6,661,900</u>	<u>₩ 6,661,900</u>	<u>₩ -</u>

The Company provided guarantees amounting to CNY 70 million (₩ 11,812 million) (2018 : CNY 71 million) to SMR Automotive (Langfang) Co., Limited. and the Company provided joint guarantees amounting to CNY 24 million to SMR Automotive Yangcheng Co., Ltd. for its borrowings of CNY 20 million from Industry Bank of Korea(China) Limited.

Key management refers to the directors (executive and non-executive), the Head of Internal Audit and leader of each business segments who have significant authority and responsibility in respect to planning, operating and controlling of the Company's business activities. Compensation for key management for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019	2018
Short-term salaries	₩ 1,917,271	₩ 81,887
Severance benefit	155,730	45,402
	<u>₩ 2,073,001</u>	<u>₩ 127,289</u>

## 21. Comprehensive income

Details of the Company's comprehensive income for the year ended March 31, 2019 and the three months period ended March 31, 2018 are as follows (Korean won in thousands):

	2019	2018
Net income	₩ 6,774,593	₩ 4,239,339
Other comprehensive income		
Unrealized loss on available-for-sale securities, net of tax of ₩(536) thousand (2018: ₩ 615 thousand)	1,900	(2,181)
Comprehensive income	<u>₩ 6,776,493</u>	<u>₩ 4,237,158</u>

## **Review report on internal control over financial reporting**

SMR Automotive Modules Korea Ltd.

The internal control over financial reporting of SMR Automotive Modules Korea Ltd. as of March 31, 2019 has been reviewed by the independent auditors and the independent auditor's report pursuant to Article 8 of the *Act on External Audit of Stock Companies*.

1. Independent auditor's review report on internal control over financial reporting
2. Management's assessment of internal control over financial reporting.

## **Independent auditor's review report on internal control over financial review reporting**

**The Chief Executive Officer  
SMR Automotive Modules Korea Ltd.**

We have reviewed the accompanying management's report on the status of the Internal Control over Financial Reporting ("ICFR") of SMR Automotive Modules Korea Ltd. (the "Company") as of March 31, 2019. The Company's management is responsible for design and operations of its ICFR, including the reporting of its operations. Our responsibility is to review the management's ICFR report and issue a report based on our review. The management's report on the operations of the ICFR of the Company states that "Based on the assessment of ICFR as of March 31, 2019, no material weakness, in any material respects, has been identified from the standpoint of the Best Practice Guideline for ICFR."

We conducted our review in accordance with the ICFR review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the ICFR. A review includes the procedures of obtaining an understanding of the ICFR, inquiring as to management's report on the operations of the ICFR and performing a review of related documentation within limited scope, if necessary. However, as the Company is a non-public large-sized company, the design, operations and assessment of its ICFR are limited compared with those of public large-sized companies, in accordance with Chapter 5, '*Application for small-and-medium sized companies*' of the Best Practice Guideline for ICFR. As such, we performed our review in accordance with Chapter 5, '*Application for small-and-medium sized companies*' of the Best Practice Guideline for ICFR.

A company's ICFR consists of an establishment of related policies and organization to ensure that it is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea. However, because of its inherent limitations, the ICFR may not prevent or detect material misstatements of the financial statements. Also, projections of any assessment of the ICFR on future periods are subject to the risk that ICFR may become inadequate due to the changes in conditions, or that the degree of compliance with the policies or procedures may be significantly reduced.

Based on our review of the management's report on the operations of the ICFR, nothing has come to our attention that causes us to believe that the management's report referred to above is not presented fairly, in all material respects, in accordance with Chapter 5, '*Application for small-and-medium sized companies*' of the Best Practice Guideline for ICFR.

We conducted our review of the ICFR in existence as of March 31, 2019, and we did not review the ICFR subsequent to March 31, 2019. This report has been prepared for Korean regulatory purposes pursuant to the Act on External Audit of Stock Companies, and may not be appropriate for other purposes or for other users.

*Ernst & Young Han Young*

July 11, 2019

This report is annexed in relation to the audit of the financial statements as of March 31, 2019 and the review of internal accounting control system pursuant to Article 8 of the Act on External Audit for Stock Companies of the Republic of Korea.