MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Financial statements

Year ended December 31, 2019 and 2018
with report of independent auditors

MSSL WIRINGS JUÁREZ, S. A. DE C.V.

Financial statements

As of December 31, 2019 and 2018

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
MSSL Wirings Juárez, S. A. de C.V.

Adverse opinion

We have audited the accompanying financial statements of MSSL Wirings Juárez, S. A. de C.V., which comprise the statement of financial position at December 31, 2019, and the related statement of income, changes in shareholders' equity, and cash flows for the year then ended, as well as a summary of the significant accounting policies and other explanatory information.

In our opinion, due to the importance of the material effects of the matter described in the section "Basis of the adverse opinion" of our report, the aforementioned financial statements do not fairly present the financial situation of MSSL Wirings Juárez, S.A. de C.V., as of December 31, 2019, as well as its results and cash flows, for the year ended on that date, in accordance with the Mexican Financial Reporting Standards (MFRS).

Basis for adverse opinion

As mentioned in Note k) of the accompanying financial statements, as of December 31, 2019 and 2018, the Company did not recognize the liability for legal compensation corresponding to employee benefits under NIF D-3 "Employee benefits "(" NIF D-3 "). The lack of recognition of said liability, is considered a generalized and material deviation for the attached financial statements.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

We consider that the audit evidence obtained, provides a sufficient and adequate basis for our adverse opinion.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Group to express an opinion on the company financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

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

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

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 Villarreal Robledo

Ciudad Juárez, Mexico,
June 26th, 2020

MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Statement of financial position

(In Mexican pesos)

	December 31, 2019		December 31, 2018	
Assets				
Current assets:				
Cash	Ps.	845,376	Ps.	1,367,010
Accounts receivable:				
Related parties		1,334,147		391,893
Recoverable taxes (Note 3)		423,701		85,551
Prepaid expenses		437,189		427,273
		2,195,037		904,717
Total current assets		3,040,413		2,271,727
Non-current assets:				
Leasehold improvements, net (Note 4)		25,358		207,570
Deferred income tax (Note 10)		376,001		400,273
Deferred profit sharing (Note 10)		108,638		143,325
Guarantee deposits		43,478		43,478
Total non-current assets		553,475		794,646
Total assets	Ps.	3,593,888	Ps.	3,066,373
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payables	Ps.	25,328	Ps.	131,144
Provisions and accrued liabilities (Note 5)		1,567,932		1,476,295
Short-term direct benefits (Note 7)		437,996		455,968
Income tax		80,640		224,263
Total current liabilities		2,111,896		2,287,671
Labor obligations (Note 8)		198,428		266,846
Total liabilities		2,310,324		2,554,517
Shareholders' equity (Note 9):				
Capital stock		50,000		50,000
Declared dividends		-		1,315,122
Accumulated earnings		1,233,564		1,776,978
Total shareholders' equity		1,283,564		511,856
Total liabilities and shareholders' equity	Ps.	3,593,888	Ps.	3,066,373

The accompanying notes are an integral part of this financial statement.

MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Statement of income

(In Mexican pesos)

	For the years ended December 31, 2019	2018
Revenues (Note 1c)	Ps. 28,852,423	Ps. 28,598,276
Other income	3,224	129,702
Costs and expenses	(27,221,335)	(27,286,361)
Operating income	1,634,312	1,441,617
Financing cost:		
Exchange (loss) gain, net	(3,953)	5,103
	(3,953)	5,103
Income before taxes	1,630,359	1,446,720
Income tax (Note 10)	858,651	984,864
Net income	Ps. 771,708	Ps. 461,856

The accompanying notes are an integral part of this financial statement.

MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Statement of changes in shareholder's equity

For the years ended December 31, 2019 and 2018
(In Mexican pesos)

	Capital stock	Accumulated earnings	Total
Balances at December 31, 2017	Ps. 50,000	Ps. 1,315,122	Ps. 1,365,122
Dividends paid		(1,315,122)	(1,315,122)
Net income of the year		461,856	461,856
Balances at December 31, 2018	50,000	461,856	511,856
Net income of the year		771,708	771,708
Balances at December 31, 2019	Ps. 50,000	Ps. 1,233,564	Ps. 1,283,564

The accompanying notes are an integral part of this financial statement.

MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Statement of cash flows

(In Mexican pesos)

	For the years ended December 31, 2019	2018
Operating activities		
Income before taxes on profits	Ps. 1,630,359	Ps. 1,561,991
Items not affecting cash flows:		
Depreciation	182,212	616,563
Net periodic cost	83,453	39,036
Deferred income tax	24,272	(115,271)
Deferred profit sharing	34,687	(64,492)
	1,954,983	2,037,828
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(348,067)	6,065
Related parties	(942,255)	305,309
Current liabilities	(1,186,294)	(445,272)
Net cash flows (used in) provided by operating activities	(2,476,617)	1,903,930
Financing activities		
Dividends paid	-	(1,315,122)
Net cash flows (used in) financing activities	-	(1,315,122)
Investing activities		
Purchase of fixed assets, net	-	(82,940)
Net cash flows used in investing activities	-	(82,940)
(Decrease) increase in cash	(521,634)	505,867
Cash at beginning of year	1,367,010	861,143
Cash at end of year	Ps. 845,376	Ps. 1,367,010

The accompanying notes are an integral part of this financial statement.

1. Description of the business

MSSL Wirings Juárez, S.A. de C.V. (hereafter, the "MWJ" or the Company was incorporated under the terms of the Mexican Corporations Act on March 20, 2015, and is a 99.99% owned subsidiary of MSSL (GB) Limited (Holding company).

MWJ is dedicated to render administrative, financing and accounting services to its related party MSSL Wiring System, Inc. (MWS) in the United States. Revenues are carried out through a Maquiladora service agreement, which provides that these services are to be billed based on costs incurred plus a profit margin.

On June 26 of 2020, the financial statements and these notes were authorized by Mary Esther Covarrubias, the Company's Controller, for their issue and subsequent approval by the Company's Board of Directors and shareholders, who have the authority to modify the financial statements.

Summary of significant accounting policies

a) Compliance with Mexican Financial Reporting Standards

Except as mentioned in paragraph 1k), the accompanying financial statements were prepared in conformity with Mexican Financial Reporting Standards (Mexican FRS).

b) Basis of preparation

The accompanying financial statements have been prepared on an historical-cost basis. The amounts are presented in Mexican pesos except where otherwise indicated.

From January 1, 2008, Mexico is considered to have a non-inflationary economic environment, as defined under Mexican FRS B-10 "Effects of Inflation". As at December 31, 2019 and 2018, Mexico's cumulative inflation rate for the three prior years was 26% (annual average of 8%), which represents the necessary condition for considering Mexico as having a non-inflationary economic environment.

As determined based on the National Consumer Price Index (NCPI) published by the National Statistical and Geographical Information Agency (INEGI), Mexico's annual inflation rate for 2019 and 2018 is as follows:

	Cumulative inflation for 2018 (% of 2016, 2017 & 2018)	Cumulative inflation for 2019 (% of 2017, 2018 & 2019)	Inflation for the year (% of 2019)
Inflation percentages	14.96%	14.43%	2.83%

Under Mexican FRS, this cumulative inflation rate represents the necessary condition for considering Mexico as having a non-inflationary economic environment, which means that the financial statements should be prepared on a historical cost basis.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Expected to be realized within twelve months after the reporting period
- Held primarily for the purpose of trading, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as non-current.

c) Recognition of revenues

The main activity of the company is the provision of maquila services, based on its contract with its related party MSSL Wiring System, Inc.

The income derived from the contract with MSSL Wiring System, Inc. is recognized at the time that control of the services is transferred to it, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for said services, For the determination of income, the company uses a factor of 5.08% profit on the costs and expenses incurred in the maquila process for the fiscal year under review.

d) Use of estimates

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

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.

Defined benefit plans

The net cost of defined benefits 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 and 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 December 31, 2019 and 2018, 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 publicly available mortality tables for Mexico as country.

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

Additional information on the assumptions used is provided in Note 8.

e) Cash

Cash principally consist of bank deposits. Cash and cash equivalents are stated at fair value.

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

f) Other accounts receivable

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

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

Other accounts receivable 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.

g) Prepaid expenses

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

At the time the goods or services are received, prepaid expenses are either capitalized or charged to the statement of comprehensive income, depending on whether there is certainty that the acquired goods or services will generate future economic benefits.

h) Leasehold improvements

Leasehold improvements are recognized at acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any. At December 31, 2019 and 2018, there were no constructions in progress to which applies any capitalization of the comprehensive financing cost.

The cost of acquiring leasehold improvements 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. Repair and maintenance costs are expensed as incurred.

Depreciation of leasehold improvements is computed on the assets' carrying values, using the straight-line method (since management considers that this method best reflects the use of these assets) and based on their estimated useful lives, as follows:

	Estimated useful life
Leasehold improvements	5 years

Depreciation of leasehold improvements is computed using the straight-line method, based on the historical value and estimated useful lives of the related assets. (See Note 4).

Fixed assets are derecognized upon disposal or when no future economic benefits are expected from their 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 immediately recorded in the income statement.

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

For the year ended December 31, 2019 and 2018, there were no indicators of impairment in the Company's fixed assets.

i) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(1) Short-term leases and low-value asset leases

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

j) Accrued liabilities, provisions, contingent liabilities and commitments

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.

When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is mostly certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provision amounts are determined as the present value of the expected disbursements to settle the obligation. The discount rate is determined on a pre-tax basis and reflects current market conditions at the balance sheet date and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are recognized when they will most likely give rise to a future cash disbursement for their settlement. Also, commitments are only recognized when they will generate a loss.

k) Reserve for seniority premiums and termination payments

Seniority premiums are paid to workers as required by Mexican labor law. Additionally, under Mexican labor law, the Company is obligated for certain benefits accruing to workers who leave or are dismissed in certain circumstances.

At December 31, 2019 and 2018, the Company recognized the liability for seniority premiums based on independent actuarial computations applying the projected unit credit method, using financial assumptions net of inflation. The latest actuarial computation was prepared at December 2019.

As at December 31, 2019 and 2018, the Company did not record a provision for its obligation related to termination benefits, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 Employee benefits, because management determined that it was not practical to calculate the Company’s employee benefit obligation.

l) Employee profit sharing

Current year employee profit sharing is presented as part of costs or expenses in the statement of comprehensive income.

The deferred employee profit sharing shall be determined using the asset and liability method. Under this method, deferred profit sharing is to be computed by applying the 10% rate to all temporary differences between the values of all assets and liabilities for financial and tax reporting purposes.

m) Exchange differences

Transactions in foreign currency are recorded at the prevailing exchange rate on the day of the related transactions. Foreign currency denominated assets and liabilities are translated at the prevailing exchange rate at the balance sheet date.

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

See Note 6 for the foreign currency position at the end of each year and the exchange rates used to translate foreign currency denominated balances.

n) 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 an expense in profit or loss, except to the extent that it arises from transactions or other events recognized outside profit or loss, either in comprehensive income or directly in equity.

Deferred income tax

Deferred taxes on profits are 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 effective as of the date of the statement of financial position, or the enacted rate at the date of the statement of financial position that will be in effect when the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

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

o) Statement of comprehensive income presentation

Costs and expenses shown in the Company's statement of income are presented based on their function, since such classification allows for an accurate evaluation of both gross profit and operating margins.

Although Mexican FRS B-3 does not require the presentation of operating income, this caption is shown in the statement of income, since operating income is an important indicator used for evaluating the Company's operating results.

p) Equity

Changes in the Company’s equity and cumulative gains are recognized in terms of historical cost as of 1 January 2008.

q) Financial risk management objectives and policies

The Company is exposed to (i) economic independence.

(i) Economic dependence

The main risk associated with the Company is that practically 100% of the Company's net revenue derives from services rendered to its related party MSSL Wiring System, Inc. In the event that such related party stopped their production or not pay the Company for their services in a timely fashion, the financial position and the results of operations of the Company would be adversely affected. The Company anticipates that this significant customer concentration will continue for the foreseeable future.

r) New accounting pronouncements

Improvements to Mexican FRS issued but not yet effective

Improvements to Mexican FRS for 2020

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

(i) Mexican FRS D-4 Income Taxes and Mexican FRS D-3 Employee Benefits

Entities are now required to account for the effects of uncertain tax treatments on their income tax and employee profit sharing. The improvements address matters such as: whether an entity should consider uncertain tax treatments separate or combined basis, the assumptions an entity must make when determining whether the tax treatment will be reviewed by the tax authorities, how an entity should determine its taxable profit, tax base, unused tax losses, unused tax credits and tax rates, methods for estimating the uncertainty, and how an entity should evaluate changes in facts and circumstances.

Since employee profit sharing is determined based on the same tax laws and using practically the same tax base as income tax, the above mentioned considerations related to the effects of uncertainty are also applicable to current and deferred employee profit sharing.

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

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

(ii) Mexican FRS D-4 Income Taxes

Entities are now required to recognize the tax effects of distributions of dividends in equity, so when an entity recognizes a liability for distribution of dividends, it must also recognize the corresponding income tax liability, if applicable.

This improvement is effective for annual periods beginning on or after 1 January 2020, with early adoption recommended for annual periods beginning on or after 1 January 2019.

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

(iii) Mexican FRS D-5 Leases

a) Use of a risk free rate to discount future lease payments

Mexican FRS D-5 now includes an option for lessees to measure the lease liability at the commencement date of the lease, at the present value of the lease payments that are not paid at that date using a risk free rate. Lessees must elect whether to apply this option to each lease agreement and, if this option is elected, it must be applied until the end of the lease term.

Mexican FRS D-5 establishes that a risk free rate is the rate that reflects the time value of money under prevailing market conditions established for government bonds with specific maturities; a risk free rate does not take any other risks into account.

b) Separating components of a lease

Limitations were imposed on the use of the practical expedient set forth in Mexican FRS D-5 related to the separation of non-lease components or relatively insignificant components when determining the right of use asset and the lease liability.

The practical expedient establishes that, when it is difficult to separate the components, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. Lessees still may not apply this practical expedient to embedded derivates that meet the separation criteria in Mexican FRS C-10.

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

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

A description of the most relevant effects of the standards effective for annual periods beginning on or after 1 January 2019 is, as follows:

Leases

Mexican FRS D-5 supersedes Bulletin D 5 "Leases" ("Bulletin D-5") and the supplementary application of IFRIC 4 "Determining whether an Arrangement contains a Lease" ("IFRIC 4"). 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.

Lessor accounting under MFRS D-5 is substantially unchanged from Bulletin D 5. Lessors will continue to classify leases using the same classification principle as in Bulletin D 5 and distinguish between two types of leases: operating and finance leases. Therefore, it is not expected impact of MFRS D-5 for leases where the Company is the lessor.

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

Improvements to Mexican FRS for 2018

The improvements with 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.

(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.

(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.

2. Related parties

a) An analysis of balances due to related parties at December 31, 2019 and 2018, is as follows:

		2019		2018
Due from:				
MSSL Wiring System, Inc.	Ps.	1,334,147	Ps.	391,893
Total	Ps.	1,334,147	Ps.	391,893

In 2015, the Company entered into a Maquiladora service agreement to render for the supply, storage, distribution, classification, inspection, testing or verification of goods; design or engineering of products; Maintenance and support of computer systems, data processing; training, consulting and evaluation for the improvement of human capital; assurance of the quality and processes of the companies in the sector of technologies of the information and processes of administration, finances, accounting, collection, payroll, human and legal resources; control of production and clinical analysis to its related party MSSL Wiring System, Inc. (MWS) in the United States, which provides that these services are to be billed based on costs incurred plus a profit margin.

b) During the year ended December 31, 2019 and 2018, the Company had the following transactions with related companies:

		2019		2018
Revenue in bond services	Ps.	28,852,423	Ps.	28,598,276

3. Recoverable taxes

An analysis of recoverable taxes at December 31, 2019 and 2018, is as follows:

		2019		2018
Valued added tax	Ps.	162,551	Ps.	85,551
Income tax		261,150		-
Total	Ps.	423,701	Ps.	85,551

4. Leasehold improvements

a) An analysis of leasehold improvements at December 31, 2019 and 2018, is as follows:

		2019		2018	
	Useful life in years	Investment	Accumulated depreciation	Investment	Accumulated depreciation
Leasehold improvements	5	Ps. 1,621,869	Ps. 1,621,869	Ps. 1,621,869	Ps. 1,447,079
Machinery and equipment	10	37,110	11,752	37,110	4,330
		Ps. 1,658,979	Ps. 1,633,621	1,658,979	Ps. 1,451,409
Leasehold improvements, machinery and equipment, net		Ps. 25,358		Ps. 207,570	

b) Depreciation expense for the year ended December 31, 2019 and 2018, was Ps.182,212 and Ps.616,563, respectively.

5. Provisions and accrued liabilities

An analysis of other accounts payable and accrued liabilities is as follows:

	Balance as at 31 December 2018	Increases	Payments	Write-offs	Balance as at 31 December 2019
Short term provisions:					
Taxes on payroll	Ps. 892,937	8,159,158	Ps.(8,141,416)	$ -	Ps. 910,679
Other	298,055	5,085,076	(5,087,860)	-	295,271
Payroll	285,303	14,016,967	(13,940,288)	-	361,982
	Ps. 1,476,295	Ps. 27,261,201	Ps.(27,169,564)	$ -	Ps. 1,567,932

The other provisions recognized represent services contracted during the year that will be paid in the following year.

6. Foreign currency balances and transactions

a) The financial statements at December 31, 2019 and 2018, include the following U.S. dollar denominated assets:

	2019	2018
Current assets:		
Cash	USD. 43,160	USD. 69,602
Total monetary asset position	USD. 43,160	USD. 69,602

The exchange rate used to translate the above amounts to Mexican pesos at December 31, 2019 and 2018, were Ps. 18.7018 and Ps. 19.6403, respectively per U.S. dollar. At June 26, 2020, the date of the issuance of these financial statements, the exchange rate is Ps.22.7963 per U.S. dollar.

7. Short-term employee benefits

a) Short term benefits

At December, 31, 2019 and 2018, the Company has recognized accrued liabilities for short-term direct benefits. An analysis is as follows:

	2019	2018
Profit sharing	Ps. 201,643	Ps. 291,998
Vacation	185,940	126,138
Vacation premium	50,413	37,832
Total	Ps. 437,996	Ps. 455,968

b) Employee Profit Sharing (EPS)

The LISR establishes that the basis for the determination of the EPS of the fiscal year is the fiscal profit that is determined for the calculation of the Income Tax for the year considering certain adjustments considered by the LISR itself.

An analysis of employee profit sharing for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Current employee profit sharing	Ps. 201,643	Ps. 291,998
Deferred employee profit sharing	34,687	(64,492)
	Ps. 236,330	Ps. 227,506

c) Deferred Employee Profit Sharing (EPS)

An analysis of the Company's deferred employee profit sharing (EPS) assets/(liabilities) as at 31 December 2019 and 2018 is as follows:

	2019	2018
Deferred EPS assets		
Provisions	Ps. 59,565	Ps. 92,493
Leasehold improvements	88,311	82,969
	147,876	175,462
Deferred EPS liabilities		
Prepaid expenses	(39,238)	(32,137)
	(39,238)	(32,137)
Deferred employee profit sharing asset/(liability), net	Ps. 108,638	Ps. 143,325

8. Labor obligations

An analysis of the reserve for seniority premiums and termination payments and the net period cost, together with the basic actuarial assumptions considered in the computation of labor obligations, is as follows:

a) Net periodic benefit cost

Analysis of net benefit cost for 2019:		Seniority premiums		Total 2019
Current year service cost	Ps.	50,988	Ps.	50,988
Net interest cost		25,860		25,860
Remeasurements of past service cost		6,605		6,605
Net periodic cost	Ps.	83,453	Ps.	83,453

Analysis of net benefit cost for 2018:		Seniority premiums		Total 2018
Current year service cost	Ps.	30,612	Ps.	30,612
Net interest cost		11,522		11,522
Remeasurements of past service cost	(	3,098)	(	3,098)
Net periodic cost	Ps.	39,036	Ps.	39,036

b) Defined benefit liability

Liabilities:		Seniority premiums		Total 2019
Defined reformulated benefit obligations as at January 1, 2019	Ps.	266,846	Ps.	266,846
Net periodic cost		83,453		83,453
Other comprehensive for the year	(	151,871)	(	151,871)
Net projected liability	Ps.	198,428		198,428

Liabilities:		Seniority premiums		Total 2018
Defined reformulated benefit obligation as at January 1, 2018	Ps.	160,923	Ps.	160,923
Net periodic cost		39,036		39,036
Benefits Paid	(	27,398)	(	27,398)
Other comprehensive for the year		94,285		94,285
Net projected liability	Ps.	266,846	Ps.	266,846

Weighted average assumptions used to determine the benefit obligation as of December:

	2019	2018
Discount rate	7.30%	10.00%
General salary increase	5.00%	5.00%
Minimum salary increase	4.00%	4.00%

9. Shareholders' equity

At December 31, 2019 and 2018, partnership capital is Ps. 50,000 (nominal amount). Total partnership capital is represented by 50,000 common registered shares, issued and outstanding, with a par value of one Mexican peso each.

a) Legal reserve

In conformity with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued until the legal reserve reaches 20% of capital stock. At December 31, 2019 and 2018, the Company has not separated the legal reserve.

10. Income tax

Income Tax (IT)

a) The Mexican Income Tax Law (MITL) establishes a corporate income tax rate of 30% for fiscal years 2019 and 2018.

The MITL establishes requirements and limits regarding certain deductions, including restrictions on the deductibility of payroll-related expenses that are considered tax-exempt for employees, contributions to create or increase pension fund reserves, and Mexican Social Security Institute dues that are paid by the Company but that should be paid by the employees. The MITL also establishes that certain payments made to related parties shall not be deductible if they do not meet certain requirements.

b) An analysis of income tax recognized in profit and loss for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Current income tax	Ps. 834,379	Ps. 1,100,135
Deferred income tax	24,272	(115,271)
Total income tax	Ps. 858,651	Ps. 984,864

c) An analysis of deferred taxes shown in the balance sheet is as follows:

		2019		2018
Deferred tax assets:				
Liability provisions	Ps.	178,695	Ps.	203,179
Employee profit sharing		60,493		87,596
Leasehold improvements		264,934		248,907
		504,122		539,682
Deferred tax liabilities:				
Liability provisions		(117,715)		(96,411)
Deferred profit sharing		(10,406)		(42,998)
		(128,121)		(139,409)
Deferred income tax, net	Ps.	376,001	Ps.	400,273

A reconciliation of the statutory income tax rate recognized by the Company for the financial reporting purposes is as follows:

		2019		2018
Income before tax	$	1,630,359	$	1,446,720
Permanent differences:				
Non-deductible expenses		1,200,633		1,856,545
Inflationary effects		19,586		367
Other items		11,591		(20,752)
Income before income tax, plus permanent items		2,862,169		3,282,880
Statutory income tax rate		30%		30%
Total income tax	$	858,651	$	984,864
Effective tax rate		53%		68%

d) Tax balances

At December 31, 2019, the Company had the following tax balance:

		2019
Restated Contributed Capital Account (CUCA)	$	60,433
Net Taxed Profits Account (CUFIN)		3,205,285

11. Contingencies and commitments

At December 31, 2019, MSSL Wirings Juárez, S.A. de C.V., is responsible for the following commitments and contingencies:

- The Company is responsible for all differences that could rise as a result of any review performed by the Tax Authorities.

- The company is subject to litigation in the normal course of business. As of December 31, 2018, in opinion of the Company's attorneys, there are no material matters of a legal nature.

- In accordance with the Income Tax Law, companies that carry out transactions with related parties are subject to fiscal limitations and obligations, in terms of determining agreed prices, since they must be comparable to those that would be used with or between independent parties. in comparable operations. If the tax authorities review the prices and reject the amounts determined, they could demand, in addition to the collection of the tax and corresponding accessories (updating and surcharges), fines on the omitted contributions, which could be up to 100% about the updated amount of contributions.

12. Operating leases

The Company has entered into an operating lease for the building located at Ciudad Juárez, where its offices and warehouses are located. The contract is for a period ranging from two years, and the minimum annual lease payments during the next years, are as follows:

	Thousands of U.S. dollars
2019	6
Total	USD. 6

Rent charged to results of operations for operating leases was Ps.1,462,468 and Ps.1,429,423, in 2019 and 2018, respectively.

13. Subsequent events

On December 31, 2019, China alerted the World Health Organization (WHO) of a new virus (Covid-19 or Coronavirus). On January 30, 2020, the WHO International Health Regulations Emergency Committee declared the outbreak a "Public Health Emergency of International Importance". With the recent and rapid development of the coronavirus outbreak, many countries have required entities to limit or suspend commercial operations and have implemented travel restrictions and quarantine measures. These measures and policies have significantly disrupted (or are expected to disrupt) the activities of many entities. As the outbreak continues to progress and evolve, it is currently difficult to predict the extent and duration of its commercial and economic impact. Consequently, these circumstances may present challenges to entities when preparing their financial information.

At the date of issuance of the financial statements, the Company's management is in the process of evaluating the economic and operational impact.