

SMR Automotive Modules Korea Ltd.

Financial statements
for the years ended March 31, 2020 and 2019
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 financial statements of SMR Automotive Modules Korea Ltd. (the "Company"), which comprise the statements of financial position as of March 31, 2020 and 2019, and the statements of operations, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea ("KGAAP").

Basis for opinion

We conducted our audit 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 audit 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 KGAAP, 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 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 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.



June 16, 2020

This audit report is effective as of June 16, 2020, 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 years ended March 31, 2020 and 2019

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

Chang-kyun Han
Chief Executive Officer
SMR Automotive Module Korea Ltd.

SMR Automotive Modules Korea Ltd.
Statements of financial position
as of March 31, 2020 and 2019

(Korean won)

| | <u>2020</u> | <u>2019</u> |
|---|--------------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | ₩ 2,031,976,335 | ₩ 1,816,131,961 |
| Account receivable (Note 20) | 31,111,190,404 | 42,178,730,398 |
| Less: allowance for doubtful accounts | (123,726,140) | (177,166,254) |
| Other accounts receivable (Note 20) | 7,854,334,259 | 6,115,824,912 |
| Less: allowance for doubtful accounts | (28,253,707) | (27,961,535) |
| Accrued income | - | 73,095,891 |
| Short-term loans (Note 20) | 19,808,718,000 | 16,371,816,850 |
| Derivative assets (Note 13) | - | 63,567,576 |
| Current tax assets | 145,145,421 | 11,615,520 |
| Advanced payments | 951,068,279 | 400,000,000 |
| Prepaid expenses | 323,433,285 | 290,411,218 |
| Current portion of deferred tax assets (Note 12) | 964,166,119 | 958,546,503 |
| Inventories (Note 5) | 10,283,984,384 | 10,423,946,248 |
| Total current assets | <u>73,322,036,639</u> | <u>78,498,559,288</u> |
| Non-current assets: | | |
| Investment assets (Notes 3,4 and 6) | 32,992,658,121 | 30,403,096,676 |
| Property, plant and equipment, net (Notes 7 and 10) | 33,145,705,978 | 37,665,573,835 |
| Leasehold deposits | 2,805,272,000 | 3,288,297,000 |
| Deferred tax assets (Note 12) | 2,583,290,798 | 1,868,690,662 |
| Total non-current assets | <u>71,526,926,897</u> | <u>73,225,658,173</u> |
| Total assets | <u>₩ 144,848,963,536</u> | <u>₩ 151,724,217,461</u> |

(Continued)

SMR Automotive Modules Korea Ltd.
Statements of financial position
as of March 31, 2020 and 2019 (continued)
(Korean won)

| | <u>2020</u> | <u>2019</u> |
|---|---------------------------------|---------------------------------|
| Liabilities and equity | | |
| Current liabilities: | | |
| Accounts payable (Notes 8 and 20) | ₩ 38,944,260,399 | ₩ 47,499,727,345 |
| Other accounts payable (Notes 8 and 20) | 7,299,087,031 | 8,004,151,997 |
| Withholdings | 526,154,451 | 634,088,734 |
| Advances received | 3,706,687,589 | 392,729,345 |
| Accrued expenses | 3,082,918,634 | 2,692,003,811 |
| Provisions for sales warranties (Note 9) | 1,984,395,567 | 2,296,856,374 |
| Derivative liabilities (Note 13) | 141,577,983 | - |
| Current portion off finance lease liabilities (Note 10) | 321,366,549 | 822,056,020 |
| Total current liabilities | <u>56,006,448,203</u> | <u>62,341,613,626</u> |
| Non-current liabilities: | | |
| Provision for retirement benefits (Note 11) | 1,178,358,763 | 1,249,140,298 |
| Finance lease liabilities (Note 10) | 403,598,337 | 604,147,761 |
| Total non-current liabilities | <u>1,581,957,100</u> | <u>1,853,288,059</u> |
| Total liabilities | <u>57,588,405,303</u> | <u>64,194,901,685</u> |
| Equity | | |
| Capital stock (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 loss | | |
| Loss on valuation of available-for-sale securities (Note 4) | (191,089,209) | (139,307,193) |
| Retained earnings (Note 15) | | |
| Legal reserve | 3,570,000,000 | 3,570,000,000 |
| Unappropriated retained earnings | 91,377,488,532 | 91,594,464,059 |
| Total equity | <u>87,260,558,233</u> | <u>87,529,315,776</u> |
| Total liabilities and equity | <u>₩ 144,848,963,536</u> | <u>₩ 151,724,217,461</u> |

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

SMR Automotive Modules Korea Ltd.
Statements of operations
for the years ended March 31, 2020 and 2019

(Korean won)

| | 2020 | 2019 |
|---|-------------------------|------------------------|
| Sales (Note 20) | ₩ 311,087,836,510 | ₩ 320,820,247,917 |
| Cost of sales (Notes 20) | 294,942,099,502 | 297,992,025,701 |
| Gross profit | 16,145,737,008 | 22,828,222,216 |
| Selling and administrative expenses (Notes 17) | 28,615,277,981 | 27,972,198,097 |
| Operating loss | (12,469,540,973) | (5,143,975,881) |
| Non-operating income | | |
| Interest income | 1,016,021,785 | 591,671,905 |
| Gain on foreign currency transactions | 1,032,530,713 | 539,509,984 |
| Gain on foreign currency translation | 632,494,143 | 100,417,562 |
| Commission income | 2,254,768,257 | 1,160,363,419 |
| Gain on transactions of derivatives | 48,710,205 | 234,154,142 |
| Gain on disposal of property, plant and equipment | 240,382,725 | 660,247,553 |
| Gain on investments in equity method investments (Note 6) | 2,655,948,645 | 5,092,937,917 |
| Reversal of allowance for doubtful accounts | 66,409,516 | 136,762,339 |
| Miscellaneous gain | 5,739,959,162 | 4,771,225,151 |
| Gain on valuation of derivatives | - | 46,890,938 |
| Rental income | - | 4,600,000 |
| | <u>13,687,225,151</u> | <u>13,338,780,910</u> |
| Non-operating expense | | |
| Interest expenses | 72,814,911 | 168,911,262 |
| Loss on foreign currency transactions | 931,554,409 | 1,825,739,043 |
| Loss on foreign currency translation | 509,296,073 | 100,794,069 |
| Donations | 303,500,000 | 266,500,000 |
| Loss on disposal of property, plant and equipment | 31,893,756 | 3,424,500 |
| Loss on transaction of derivatives | 127,394,535 | - |
| Loss on valuation of derivatives | 141,577,983 | - |
| Miscellaneous loss | 133,010 | 114,961,969 |
| | <u>2,118,164,677</u> | <u>2,480,330,843</u> |
| Income (loss) before tax | (900,480,499) | 5,714,474,186 |
| Income tax benefit (Note 12) | (683,504,972) | (1,060,118,947) |
| Net income (loss) | ₩ (216,975,527) | ₩ 6,774,593,133 |

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

SMR Automotive Modules Korea Ltd.
Statements of changes in equity
for the years ended March 31, 2020 and 2019
(Korean won)

| | Capital stock | Capital surplus | Capital adjustments | Accumulated other comprehensive loss | Retained earnings | Total |
|--|-----------------|-----------------|---------------------|--------------------------------------|-------------------|------------------|
| 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 |
| Gain on valuation of available-for-sale securities | - | - | - | 1,899,612 | - | 1,899,612 |
| Dividends | - | - | - | - | (2,700,000,000) | (2,700,000,000) |
| 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 |
| As of April 1, 2019 | ₩ 4,026,780,000 | ₩ 477,397,570 | ₩ (12,000,018,660) | ₩ (139,307,193) | ₩ 95,164,464,059 | ₩ 87,529,315,776 |
| Loss on valuation of available-for-sale securities | - | - | - | (51,782,016) | - | (51,782,016) |
| Net loss | - | - | - | - | (216,975,527) | (216,975,527) |
| As of March 31, 2020 | ₩ 4,026,780,000 | ₩ 477,397,570 | ₩ (12,000,018,660) | ₩ (191,089,209) | ₩ 94,947,488,532 | ₩ 87,260,558,233 |

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

SMR Automotive Modules Korea Ltd.
Statements of cash flows
for the years ended March 31, 2020 and 2019

(Korean won)

| | 2020 | 2019 |
|--|----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Net income (loss) | ₩ (216,975,527) | ₩ 6,774,593,133 |
| Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities: | | |
| Retirement and severance benefits | 3,013,081,894 | 2,821,526,629 |
| Depreciation | 7,705,838,291 | 7,368,848,102 |
| Warranty expense | 1,226,428,450 | 1,305,876,523 |
| Bad debt expenses | 13,261,574 | 30,204,852 |
| Loss on foreign currency translation | 509,296,073 | 100,794,069 |
| Loss on disposal of property, plant and equipment | 31,893,756 | 3,424,500 |
| Loss on transaction of derivatives | 127,394,535 | - |
| Loss on valuation of derivatives | 141,577,983 | - |
| Gain on foreign currency translation | (632,494,143) | (100,417,562) |
| Gain on equity method investments | (2,655,948,645) | (5,092,937,917) |
| Gain on disposal of property, plant and equipment | (240,382,725) | (660,247,553) |
| Gain on valuation of derivatives | - | (46,890,938) |
| Gain on transaction of derivatives | (48,710,205) | - |
| Reversal of other allowance for doubtful accounts | (66,409,516) | (136,762,339) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 11,184,408,808 | 11,508,681,899 |
| Other accounts receivable | (1,631,682,502) | 1,041,888,354 |
| Accrued income | 73,095,891 | (44,442,270) |
| Current tax assets | (133,529,901) | 344,852,478 |
| Prepaid expenses | (33,022,067) | (40,179,751) |
| Advanced payments | (551,068,279) | (400,000,000) |
| Deferred tax assets | (705,614,568) | 90,600,305 |
| Inventories | 139,961,864 | (1,279,405,057) |
| Accounts payable | (8,662,116,375) | (211,210,170) |
| Other accounts payable | 783,164,707 | 275,790,306 |
| Withholdings | (107,934,283) | (251,912,267) |
| Advances received | 3,313,958,244 | 252,329,345 |
| Accrued expenses | 390,914,823 | (120,433,796) |
| Current tax liabilities | - | (143,965,276) |
| Current portion of finance lease liabilities | 29,035,305 | - |
| Finance lease liabilities | 98,964,695 | 671,000,000 |
| Provisions for sales warranties | (1,538,889,257) | (1,303,910,391) |
| Payments of severance and retirement benefits | (533,960,949) | (212,612,737) |
| Contribution to pension plan assets | (2,549,902,480) | (4,391,413,577) |
| Total adjustments | <u>8,690,610,998</u> | <u>11,379,075,761</u> |
| Net cash provided by operating activities | 8,473,635,471 | 18,153,668,894 |

(Continued)

SMR Automotive Modules Korea Ltd.
Statements of cash flows
for the years ended March 31, 2020 and 2019 (continued)

(Korean won)

| | <u>2020</u> | <u>2019</u> |
|--|------------------------|-------------------------|
| Cash flows from investing activities: | | |
| Disposal of derivatives | - | 67,695,858 |
| Disposal of property, plant and equipment | 1,008,984,691 | 1,920,051,483 |
| Decrease of short-term loan | 16,371,816,850 | - |
| Decrease in leasehold deposits | 483,025,000 | 951,434,000 |
| Increase of short-term loan | (19,795,033,730) | (9,769,672,679) |
| Acquisition of derivatives | (15,116,754) | - |
| Acquisition of property, plant and equipment | (5,482,228,259) | (8,893,680,910) |
| Net cash flows used in investing activities | <u>(7,428,552,202)</u> | <u>(15,724,172,248)</u> |
| Cash flows from financing activities: | | |
| Repayment of lease liabilities | (829,238,895) | (1,831,252,541) |
| Dividends | - | (2,700,000,000) |
| Net cash flows used in financing activities | <u>(829,238,895)</u> | <u>(4,531,252,541)</u> |
| Net increase (decrease) in cash and cash equivalents | 215,844,374 | (2,101,755,895) |
| Cash and cash equivalents as of April 1, 2019 and 2018 | <u>1,816,131,961</u> | <u>3,917,887,856</u> |
| Cash and cash equivalents as of March 31, 2020 and 2019 | <u>₩ 2,031,976,335</u> | <u>₩ 1,816,131,961</u> |

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.

The largest shareholder of the Company is SMR Automotive Mirror System Holding Deutschland GmbH (the "SMR Holding Germany GmbH"), which is controlled by MSSL India, and its ownership in the Company is 89.86%.

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 ("KGAAP"). KGAAP is applied 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 auditor's 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.

The Company amortizes held-to-maturity securities by deduct the difference between the acquisition cost and the maturity par value through effective interest rate method over the repayment period from the acquisition cost and interest income, and accounts for held-to-maturity securities at amortized costs to the statements of financial position

Trading and available-for-sale securities are measured at fair value. The market price of marketable securities is considered as their fair value and the price is measured at the closing price of those securities at the statement of financial position date. Non-marketable equity securities are measured at cost subsequent to initial measurement if their fair values cannot be reliably estimated. Unrealized holding gain and loss on securities held for trading arising from fair value assessment are recognized in profit or loss, and unrealized holding gain and loss on available-for-sale securities are recognized in gain or loss on valuation of available-for-sale securities (other comprehensive income), and the cumulative amount of gain or loss on available-for-sale securities is recognized in profit or loss at the time of disposal of available-for-sale securities or recognition of impairment loss. If there is objective evidence that the estimated recoverable amount (the recoverable amount) from the securities is less than the acquisition cost or the acquisition cost of the equity securities after the amortization of the debt securities and there is an impairment loss, the impairment loss is recognized and recognized in profit or loss unless there is clear evidence that the impairment loss is unnecessary.

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 and vehicles | 3 ~ 6 years | Straight-Line Method |
| Tools and equipment | 6 years | Straight-Line Method |
| Moldings | 4 years | Straight-Line Method |
| Fixture and furniture | 6 years | Straight-Line Method |

2.8 Provision for retirement 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 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 retirement benefits and accrued defined benefit obligation, the excess amount is recorded as investment assets.

In addition, the Company operates a defined contribution plan ("DC plan"), and the obligation to pay contributions to the DC plan is recognized in cost as retirement benefit, except when included in the cost of the asset on the payment date. For unpaid contributions, the amount is recognized as a liability, and for overpaid contributions, the amount is recognized as future payment reduction or the cash-backed asset.

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 statement of operations.

2.11 Deferred 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 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 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).

The feasibility of deferred tax assets is reviewed at the end of each reporting period and is recognized as an asset when the possibility of taxable income in the future is very high. Deferred tax assets recognized in accordance with tax credits and tax credits that can be carried forward are recognized within the expected range of future taxable income that can be used for tax credits.

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 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.

2.13 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. Accordingly, loss on valuation which is recognized in cost of sales amount to ₩250,789 thousand as of March 31, 2020. (2019: ₩128,943 thousand).

2.14 Provisions and contingencies 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

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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.

2.15 Accounting for lease transactions

A lease is accounted for as either a finance lease or an operating lease. A lease is recognized as a finance 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.

2.16 Basis for judgment of significant accounting policies and key sources of assumption and estimation uncertainties in the future.

The preparation of financial statements in accordance with KGAAP 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. The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future.

2.17 Date when the financial statements were actually confirmed and the approval institution

The Company's financial statements were approved by the Company's Board of Directors' meeting held on June 26, 2020 for submission to the regular general meeting of shareholders.

3. Financial instruments restricted in use

Details of financial instruments restricted in use as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | Financial institution | 2020 | 2019 | Description |
|---------------------------------|--------------------------|---------|---------|--------------------------------|
| Long-term financial instruments | Industrial Bank of Korea | ₩ 2,000 | ₩ 2,000 | Deposits for checking accounts |

4. Available-for-sale securities

Details of available-for-sale securities as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|------------------------------|--------|--------|
| Equity securities | ₩ | ₩ |
| Marketable equity securities | 25,617 | 92,004 |

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5. Inventories

Details of inventories as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | 2019 | |
|---------------------------|------|------------|------|------------|
| Finished goods | ₩ | 6,059,660 | ₩ | 5,330,834 |
| Work in-process | | 829,630 | | 989,178 |
| Raw materials | | 4,342,094 | | 4,800,544 |
| Materials in transit | | - | | - |
| | | 11,231,384 | | 11,120,556 |
| Less: valuation allowance | | (947,400) | | (696,610) |
| | ₩ | 10,283,984 | ₩ | 10,423,946 |

6. Equity method investments

Investments in equity securities accounted for using the equity method as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | | |
|-----------------------------|---------------|------------------|-------------------------------|--------------|
| | Ownership (%) | Acquisition cost | Proportionate net asset value | Book value |
| SMR Hyosang Automotive Ltd. | 100% | ₩ 2,847,076 | ₩ 32,989,839 | ₩ 32,965,041 |

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

Changes in equity method accounted investments for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | | |
|-----------------------------|--------------|----------------------|--------------|--------------|
| | Beginning | Valuation gain(loss) | Other change | Ending |
| SMR Hyosang Automotive Ltd. | ₩ 30,309,093 | ₩ 2,655,949 | ₩ - | ₩ 32,965,041 |

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

Summary of the financial information of the investee as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2019 | | | |
|-----------------------------|--------------|-------------------|--------------|-------------|
| | Total assets | Total liabilities | Sales | Net income |
| SMR Hyosang Automotive Ltd. | ₩ 55,841,365 | ₩ 22,851,526 | ₩ 89,018,830 | ₩ 2,655,949 |

| | 2018 | | | |
|-----------------------------|--------------|-------------------|---------------|-------------|
| | Total assets | Total liabilities | Sales | Net income |
| SMR Hyosang Automotive Ltd. | ₩ 61,058,238 | ₩ 30,724,347 | ₩ 110,829,538 | ₩ 5,092,938 |

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7. Property, plant and equipment

Changes in property, plant and equipment for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | | | | | Total |
|--------------------------|-------------|------------------------|----------------------|-------------------|----------------------|--------------------------|--------------|
| | Land(*1) | Buildings & structures | Machinery & vehicles | Tools & equipment | Furniture & fixtures | Construction-in-progress | |
| Beginning balance | ₩ 3,363,620 | ₩ 10,789,692 | ₩ 10,169,146 | ₩ 6,638,627 | ₩ 5,427,227 | ₩ 1,277,262 | ₩ 37,665,574 |
| Acquisition | - | 0 | 0 | 0 | 0 | 3,986,466 | 3,986,466 |
| Disposals | - | (6,409) | (145,857) | (648,227) | (3) | - | (800,496) |
| Depreciation | - | (387,620) | (3,222,903) | (2,503,518) | (1,591,798) | - | (7,705,838) |
| Transfer | - | 228,000 | 1,821,843 | 1,743,870 | 1,209,519 | (5,003,231) | - |
| Ending balance | 3,363,620 | 10,623,664 | 8,622,228 | 5,230,753 | 5,044,945 | 260,497 | 33,145,706 |
| Acquisition cost | 3,363,620 | 14,179,447 | 35,524,087 | 43,576,019 | 15,595,344 | 260,497 | 112,499,012 |
| Accumulated depreciation | - | (3,555,783) | (26,901,859) | (38,345,267) | (10,550,399) | - | (79,353,306) |
| | ₩ 3,363,620 | ₩ 10,623,664 | ₩ 8,622,228 | ₩ 5,230,753 | ₩ 5,044,945 | ₩ 260,497 | ₩ 33,145,706 |

(*1) For other related parties, SMR Automotive Yancheng Co. Ltd. and SMR Automotive Langfang Co. Limited for payment guarantees, USD 6,000,000 is provided as collateral.

| | 2019 | | | | | | Total |
|--------------------------|-------------|------------------------|----------------------|-------------------|----------------------|--------------------------|--------------|
| | Land | Buildings & structures | Machinery & vehicles | Tools & equipment | Furniture & fixtures | Construction-in-progress | |
| Beginning balance | ₩ 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 |
| Disposals | - | - | (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 balance | 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) |
| | ₩ 3,363,620 | ₩ 10,789,692 | ₩ 10,169,146 | ₩ 6,638,627 | ₩ 5,427,227 | ₩ 1,277,262 | ₩ 37,665,574 |

As of March 31, 2020, the value of the Company's land, as determined by the government for property tax assessment purposes, is ₩5,622 million (2019: ₩5,508 million).

As of March 31, 2020, property, plant and equipment and inventories are insured against fire and other casualty losses for up to ₩233,681 million (2019: ₩295,733 million).

8. Maturity analysis of accounts and other accounts payable

The maturity analysis of the Company's accounts and other accounts payable as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | 2019 | |
|------------------------|--------------|------------|--------------|------------|
| | 1-3 months | 3-6 months | 1-3 months | 3-6 months |
| Accounts payable | ₩ 38,944,260 | ₩ - | ₩ 47,499,727 | ₩ - |
| Other accounts payable | 7,299,087 | - | 8,004,152 | - |

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9. Provisions

Provisions as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | |
|-----------------------------------|-------------------|-------------|----------------|
| | Beginning balance | Decrease | Ending balance |
| Provision for sales warranty (*1) | ₩ 2,068,531 | ₩ (84,135) | ₩ 1,984,396 |
| Provision for purchase | 228,325 | (228,325) | - |
| | ₩ 2,296,856 | ₩ (312,460) | ₩ 1,984,396 |

| | 2019 | | |
|-----------------------------------|-------------------|-------------|----------------|
| | Beginning balance | Decrease | Ending balance |
| Provision for sales warranty (*1) | ₩ 2,294,890 | ₩ (226,359) | ₩ 2,068,531 |
| Provision for purchase | 285,983 | (57,658) | 228,325 |
| | ₩ 2,580,873 | ₩ (284,017) | ₩ 2,296,856 |

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

10. Finance lease liabilities

Details of machinery and equipment classified as finance lease as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | 2019 | |
|--------------------------------|------|-------------|------|-------------|
| Acquisition cost | ₩ | 8,239,630 | ₩ | 8,305,565 |
| Less: accumulated depreciation | | (5,929,485) | | (4,784,047) |
| Book value | ₩ | 2,310,145 | ₩ | 3,521,518 |

Minimum lease payments as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | 2019 | |
|-------------------|------------------------|---------------|------------------------|---------------|
| | Minimum lease payments | Present value | Minimum lease payments | Present value |
| Within 1 year | ₩ 330,022 | ₩ 321,367 | ₩ 853,250 | ₩ 822,056 |
| 1 year to 5 years | 414,754 | 403,598 | 621,572 | 604,148 |
| | ₩ 744,776 | ₩ 724,965 | ₩ 1,474,822 | ₩ 1,426,204 |

The Company borrow the limit of ₩20 million from IBK Capital Corporation in relation to finance lease liabilities.

11. Provision for retirement benefits

Changes in provisions for retirement benefits for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|-----------------------------|--------------------|--------------------|
| Beginning balance | ₩ 13,087,772 | ₩ 12,470,532 |
| Provision during the year | 3,013,082 | 2,821,527 |
| Payments during the year | (1,991,740) | (2,204,287) |
| | <u>14,109,114</u> | <u>13,087,773</u> |
| Presented net of: | | |
| Defined benefit plan assets | (12,930,755) | (11,838,632) |
| Ending balance | <u>₩ 1,178,359</u> | <u>₩ 1,249,140</u> |

As of March 31, 2020, the Company estimates severance and retirement benefits payable to all employees to be ₩14,109 million (March 31, 2019: ₩13,088 million) and records the corresponding amount as provision for retirement benefits. Also, the Company funded 91.7% (2019: 90.5%) of severance and retirement benefits payable through severance insurance deposits with Industrial Bank of Korea.

Changes in the defined benefit plan assets for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|------------------------|---------------------|---------------------|
| Beginning balance | ₩ 11,838,632 | ₩ 9,438,892 |
| Employer contributions | 2,350,000 | 4,200,000 |
| Benefits paid | (1,457,779) | (1,991,674) |
| Interest income | 199,902 | 191,414 |
| Ending balance | <u>₩ 12,930,755</u> | <u>₩ 11,838,633</u> |

As of March 31, 2020, the entire defined benefit plan assets consist of time deposits, and the fair value of defined benefit plan assets are identical to their book values.

12. Deferred taxes

The major components of income tax benefit for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|--|--------------------|----------------------|
| Current income taxes | ₩ - | ₩ 136,778 |
| Changes in the deferred taxes arising from temporary differences | (720,220) | (251,702) |
| Income taxes recognized directly to equity | 14,605 | (536) |
| Tax refunds | 22,110 | (944,659) |
| Income tax benefit | <u>₩ (683,505)</u> | <u>₩ (1,060,119)</u> |

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12. Deferred taxes (cont'd)

A reconciliation income tax benefit applicable to income (loss) before income taxes at the Korea statutory tax rate to income tax benefit at the effective tax rate of the Company for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | 2019 | |
|--|------|-----------|------|-------------|
| Income (loss) before income taxes | ₩ | (900,480) | ₩ | 5,714,474 |
| Tax at the statutory income tax rate | | (198,106) | | 1,235,184 |
| Adjustments: | | (485,399) | | (2,295,303) |
| Non-deductible expenses | | 76,666 | | 140,634 |
| Effect of deferred tax assets not recognized | | - | | (1,120,446) |
| Effect of utilization of deficits carried forwards | | (600,490) | | (90,560) |
| Tax deductions | | 10,196 | | (508,592) |
| Tax refunds | | 22,110 | | (944,659) |
| Changes in tax rates and others | | 6,119 | | 228,320 |
| Income tax benefit | ₩ | (683,505) | ₩ | (1,060,119) |
| Effective tax rate(*) | | - % | | - % |

(*) The effective tax rate was not calculated as the Company did not incur income tax expense for the years ended March 31, 2020.

Changes in temporary differences and deferred tax assets and liabilities for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | | | |
|-----------------------------------|-------------------|-------------|----------------|----------------|-------------|
| | Beginning balance | Net changes | Ending balance | Deferred taxes | |
| | | | | Current | Non-current |
| Property, plant and equipment | ₩ 1,670,403 | ₩ 870,426 | ₩ 2,540,829 | ₩ - | ₩ 558,982 |
| Provision for sales warranty | 2,068,531 | (209,310) | 1,859,221 | 409,029 | - |
| Loss on valuation of inventories | 696,609 | 250,790 | 947,399 | 208,428 | - |
| Allowance for doubtful accounts | 193,765 | - | 193,765 | 42,628 | - |
| Provision for purchase | 216,083 | (40,773) | 175,310 | 38,568 | - |
| Equity method investments | (27,462,017) | - | (27,462,017) | - | - |
| Provision for retirement benefits | 13,087,772 | 1,021,342 | 14,109,114 | - | 3,104,005 |
| Defined benefit plan assets | (11,838,632) | (1,092,123) | (12,930,755) | - | (2,844,766) |
| Others | 393,538 | (209,776) | 183,762 | (13,469) | 53,897 |
| Deficits carried forward | 969,947 | 2,428,498 | 3,398,445 | - | 747,658 |
| Carried forward tax credit | 973,711 | (10,196) | 963,515 | - | 963,515 |
| Carried forward donation | 967,103 | 301,000 | 1,268,103 | 278,983 | - |
| | ₩ (18,063,187) | ₩ 3,309,878 | ₩ (14,753,309) | ₩ 964,167 | ₩ 2,583,291 |

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12. Deferred taxes (cont'd)

| | 2019 | | | | | |
|-----------------------------------|-----------------------|----------------------|-----------------------|------------------|--------------------|--|
| | Beginning balance | Net changes | Ending balance | Deferred taxes | | |
| | | | | Current | Non-current | |
| Property, plant and equipment | ₩ 799,978 | ₩ 870,425 | ₩ 1,670,403 | ₩ - | ₩ 367,489 | |
| Provision for sales warranty | 2,294,890 | (226,359) | 2,068,531 | 455,077 | - | |
| Loss on valuation of inventories | 567,666 | 128,943 | 696,609 | 153,254 | - | |
| Allowance for doubtful accounts | 193,765 | - | 193,765 | 42,628 | - | |
| Provision for purchase | 285,983 | (69,900) | 216,083 | 47,538 | - | |
| Equity method investments | (22,369,079) | (5,092,938) | (27,462,017) | - | - | |
| Provision for retirement benefits | 12,470,532 | 617,240 | 13,087,772 | - | 2,879,310 | |
| Defined benefit plan assets | (9,438,891) | (2,399,741) | (11,838,632) | - | (2,604,499) | |
| Others | 1,275,873 | (882,335) | 393,538 | 47,287 | 39,292 | |
| Deficits carried forward | 999,550 | (29,603) | 969,947 | - | 213,388 | |
| Carried forward tax credit | 423,169 | 550,542 | 973,711 | - | 973,711 | |
| Carried forward donation | 334,140 | 632,963 | 967,103 | 212,763 | - | |
| | <u>₩ (12,162,424)</u> | <u>₩ (5,900,762)</u> | <u>₩ (18,063,187)</u> | <u>₩ 958,547</u> | <u>₩ 1,868,691</u> | |

As of March 31, 2020, 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 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, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | | 2019 | | |
|---------------|---------------------|--------------------------|--------------------------|---------------------|--------------------------|--------------------------|
| | Deferred tax assets | Deferred tax liabilities | Net assets (liabilities) | Deferred tax assets | Deferred tax liabilities | Net assets (liabilities) |
| Current | ₩ 1,177,668 | ₩ (213,502) | ₩ 964,166 | ₩ 1,060,531 | ₩ (101,984) | ₩ 958,547 |
| Non - current | 6,092,224 | (3,508,933) | 2,583,291 | 5,144,139 | (3,275,448) | 1,868,691 |
| | <u>7,269,892</u> | <u>(3,722,435)</u> | <u>3,547,457</u> | <u>6,204,670</u> | <u>(3,377,432)</u> | <u>2,827,238</u> |

13. Commitments and contingencies

As of March 31, 2020, one blank note is pledged to Kia Motors Corporation in regards to the tooling usage agreement.

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)

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The balances of the Company's derivative financial instruments as of March 31, 2020 and 2019 are presented as follows (Korean won in thousands):

| Financial institution | 2020 | | | | | | | |
|--------------------------|---------------|---------------|--------------------------|------------------|-----------------|-------------------|------------------------|--|
| | Contract date | Maturity date | Contracted exchange rate | Currency to sell | Currency to buy | Derivative assets | Derivative liabilities | |
| Industrial Bank of Korea | 2019-12-13 | 2020-12-09 | ₩ 1,325.65 | ₩ 6,628,250 | EUR 5,000,000 | ₩ - | ₩ 108,340 | |
| Industrial Bank of Korea | 2020-03-26 | 2020-07-02 | ₩ 1,334.16 | ₩ 3,068,568 | EUR 2,300,000 | ₩ - | ₩ 33,238 | |

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

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, 2020, 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 years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Retained earnings before appropriations: | | |
| Unappropriated retained earnings carried forward from the prior year | ₩ 91,594,464 | ₩ 87,519,871 |
| Net income (loss) | (216,975) | 6,774,593 |
| | <u>91,377,489</u> | <u>94,294,464</u> |
| Appropriations : | | |
| Cash dividends | - | 2,700,000 |
| Unappropriated retained earnings to be carried forward to the next year | ₩ 91,377,489 | ₩ 91,594,464 |

16. Dividends

Dividends of the Company for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|---|---------|-----------|
| 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 years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|-----------------------------------|---------------------|---------------------|
| Salaries | ₩ 8,149,604 | ₩ 8,236,789 |
| Retirement and severance benefits | 690,015 | 683,672 |
| Employee welfare | 1,315,683 | 1,222,299 |
| Depreciation | 1,195,303 | 1,045,739 |
| Freight | 4,469,596 | 4,498,149 |
| Supplies | 51,970 | 35,985 |
| Development costs | 1,142,612 | 819,461 |
| Commissions | 6,303,315 | 5,794,867 |
| Exports expenses | 364,663 | 333,242 |
| Warranty expenses | 1,226,428 | 1,305,877 |
| Packing expenses | 811,541 | 1,039,801 |
| Bad debt expenses | 13,262 | 30,205 |
| Others | 2,881,286 | 2,926,112 |
| | <u>₩ 28,615,278</u> | <u>₩ 27,972,198</u> |

18. Value added information

The "value added" items as defined by KGAAS, which are required to be disclosed by the Company for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|-----------------------------------|---------------------|---------------------|
| Salaries | ₩ 42,643,960 | ₩ 41,809,708 |
| Severance and retirement benefits | 3,013,082 | 2,821,527 |
| Employee welfare | 5,606,263 | 5,431,286 |
| Rents | 1,355,228 | 1,517,993 |
| Taxes and dues | 399,267 | 389,174 |
| Depreciation | 7,705,838 | 7,368,848 |
| | <u>₩ 60,723,639</u> | <u>₩ 59,338,536</u> |

19. Supplementary cash flow information

Significant non-cash transactions for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|---|-------------|-------------|
| Other accounts payables due to acquisition of property, plant and equipment | ₩ 1,495,762 | ₩ 1,113,097 |
| Transfer from construction-in-progress to property, plant and equipment | 5,003,231 | 9,137,617 |
| Transfer of current portion of finance lease liabilities | 299,514 | 755,061 |

SMR Automotive Modules Korea Ltd.
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20. Related party transactions

As of March 31, 2020 and 2019, 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, 2020 and 2019 are as follows (Korean won in thousands):

| | Percentage of ownership (%) | |
|-----------------------------|-----------------------------|------|
| | 2020 | 2019 |
| SMR Hyosang Automotive Ltd. | 100 | 100 |

Significant transactions with related parties for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | 2019 | |
|--|--------------|---------------|--------------|--------------|
| | Sales | Purchases | Sales | Purchases |
| Parent company | ₩ | ₩ | ₩ | ₩ |
| SMR Holding Germany GmbH | 13,684 | - | - | - |
| Intermediate parent company | | | | |
| SMR Automotive Mirrors UK Limited | 2,119,237 | 15,450 | 2,582,041 | - |
| Subsidiary | | | | |
| SMR Hyosang Automotive Ltd. | 464,046 | 62,304,961 | 134,012 | 77,426,934 |
| Other Related parties | | | | |
| SMR Automotive (Langfang) Co., Limited | 5,022,701 | 20,985,226 | 4,401,610 | 5,822,571 |
| SMR Automotive Systems India Ltd. | 1,018,157 | 29,876 | 2,554,667 | 539 |
| SMR Automotive Yangcheng Co., Ltd. | 7,136,356 | 13,838,965 | 2,920,468 | 837,314 |
| SMR Automotive Systems U.S.A Inc. | 4,408,260 | 30,139 | 4,092,201 | - |
| SMR Automotive Mirror Technology, Hungary BT | 7,819,088 | 45,185 | 9,645,566 | - |
| SMR Automotive Brasil Ltda. | 88,231 | 205 | 239,649 | - |
| SMR Automotive Thailand Co., Ltd. | 9,377 | 91 | 5,338 | - |
| SMR Automotive Australia Pty., Ltd. | 63 | 38,291 | - | 8,231 |
| Others | 1,603,455 | 5,620,107 | 401,445 | 4,925,603 |
| | ₩ 29,702,655 | ₩ 102,908,496 | ₩ 26,976,997 | ₩ 89,021,192 |

SMR Automotive Modules Korea Ltd.
Notes to the financial statements
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20. Related party transactions (cont'd)

Outstanding balances with related parties as of March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | | | |
|--|---------------------|---------------------------|--------------------|------------------------|
| | Receivables | | Payables | |
| | Accounts receivable | Other accounts receivable | Accounts payable | Other accounts payable |
| Parent company | | | | |
| SMR Holding Germany GmbH | ₩ - | ₩ 3,092,360 | ₩ - | ₩ - |
| Intermediate parent company | | | | |
| SMR Automotive Mirrors UK Limited | 378,475 | - | - | - |
| Subsidiary | | | | |
| SMR Hyosang Automotive Ltd. | - | 10,570,224 | 2,426,090 | - |
| Other related parties | | | | |
| SMR Automotive (Langfang) Co., Limited. | 1,676,147 | 1,102,089 | 3,695,451 | 349 |
| SMR Automotive Yangcheng Co., Ltd. | 2,277,610 | 754,370 | 703,553 | 1,592,356 |
| SMR Automotive Systems U.S.A Inc. | 267,331 | 326,808 | - | 49,011 |
| SMR Automotive Mirror Technology, Hungary BT | 1,086,683 | - | - | - |
| SMR Automotive Systems India Ltd. | 449,203 | 6 | - | 10,659 |
| SMR Automotive Thailand Co., Ltd. | 2,742 | - | - | - |
| Others | 234,967 | 7,018,316 | - | 1,040,947 |
| | <u>₩ 6,373,158</u> | <u>₩ 22,864,173</u> | <u>₩ 6,825,095</u> | <u>₩ 2,693,322</u> |
| | | | | |
| | 2019 | | | |
| | Receivables | | Payables | |
| | Accounts receivable | Other accounts receivable | Accounts payable | Other accounts payable |
| 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 | - | - | - |
| Others | 69,339 | 6,397,071 | - | 523,026 |
| | <u>₩ 8,918,496</u> | <u>₩ 17,962,873</u> | <u>₩ 6,498,267</u> | <u>₩ 570,140</u> |

SMR Automotive Modules Korea Ltd.
Notes to the financial statements
March 31, 2020 and 2019

20. Related party transactions (cont'd)

Fund transactions with related parties for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | Name of company | 2020 | | 2019 | |
|-----------------------|------------------------------------|---------------------|---------------------|---------------------|--------------------|
| | | Loans | Collected | Loans | Collected |
| Subsidiary | SMR Hyosang Automotive Ltd. | ₩ 10,000,000 | ₩ 10,000,000 | ₩ 10,000,000 | ₩ - |
| Parent company | SMR Automotive Holding Deutschland | 3,090,418 | - | - | - |
| Other related parties | SMP Deutschland GmbH | 6,718,300 | 6,371,817 | 6,371,817 | 6,661,900 |
| | | <u>₩ 19,808,718</u> | <u>₩ 16,371,817</u> | <u>₩ 16,371,817</u> | <u>₩ 6,661,900</u> |

The Company provided payment guarantees amounting to CNY 70 million (₩ 12,044 million) (2019 : CNY 70 million) to SMR Automotive (Langfang) Co., Limited., and the Company provided joint guarantees amounting to USD 5 million to SMR Automotive Yangcheng Co., Ltd. and SMR Automotive (Langfang) Co., 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 years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|-----------------------------------|--------------------|--------------------|
| Short-term employee benefits | ₩ 1,922,250 | ₩ 1,917,271 |
| Severance and retirement benefits | 381,689 | 155,730 |
| | <u>₩ 2,303,939</u> | <u>₩ 2,073,001</u> |

21. Comprehensive income (loss)

Details of the Company's comprehensive income (loss) for the years ended March 31, 2020 and 2019 are as follows (Korean won in thousands):

| | 2020 | 2019 |
|--|--------------------|--------------------|
| Net income (loss) | ₩ (216,976) | ₩ 6,774,593 |
| Other comprehensive income (loss) | | |
| Gain (loss) on valuation of available-for-sale securities, net of tax of ₩(8,986) thousand (2019: ₩ 536 thousand) | (51,782) | 1,900 |
| Comprehensive income (loss) | <u>₩ (268,758)</u> | <u>₩ 6,776,493</u> |

22. Impact of COVID-19 on financial statements

Management expects that the most of region and operating segments in which the Company engages its business will be affected by COVID-10 widely spread over the world since early 2020. However, as the extent and period of its impact to the Company's business are uncertain, the Company is unable to reasonably estimate a financial impact of COVID-19.

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, 2020 has been reviewed by the independent auditor, and the independent auditor's report is attached 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

Chief Executive Officer
SMR Automotive Modules Korea Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Control over Financial Reporting ("ICFR") of SMR Automotive Modules Korea Ltd. (the "Company") as of March 31, 2020. 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 the operations of the ICFR as of March 31, 2020, no material weaknesses are identified as of March 31, 2020, in all material respects, in accordance with the Best Practice Guideline for ICFR established by the ICFR Operations Committee."

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, 2020, 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

June 16, 2020

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