Central Express CVS JSC

International Financial Reporting Standards Consolidated and Separate Financial Statements and Independent Auditor's Report

31 December 2021

Independent Auditor's Report

To the Shareholders and Board of Directors of Central Express CVS JSC:

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Central Express CVS JSC (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2021, and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's and the Company's consolidated and separate financial statements comprise:

- the consolidated and separate statement of financial position as at 31 December 2021;
- the consolidated and separate statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statement of changes in equity for the year then ended.
- the consolidated and separate statement of cash flows for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Our audit approach

Overview

<u>Materiality</u>

- Overall Group materiality: Mongolian Togrogs ("MNT") 940 million, which represents 1% of revenue.
- Overall Company materiality: Mongolian Togrogs ("MNT") 940 million which represents 1% of revenue.

<u>Group scoping</u>

- Our Group audit scope covered the audit work at the Company and one subsidiary.
- Our audit scope addressed 100% of the Group's revenues and 100% of the Group's loss before tax.

<u>Key audit matters</u>

- Accounting treatment for business combination under common control

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated and separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Company materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated and separate financial statements as a whole.

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Our audit approach (continued)

Overall Group materiality	MNT 940,000 thousand
Overall Company materiality	MNT 940,000 thousand
How we determined it	1% of total revenue
Rationale for the materiality benchmark applied	We chose revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Group and the Company is most commonly measured by users and is a generally accepted benchmark. We chose 1% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accounting treatment for business combination under common control *Refer to Notes 4, 11 and 35* On 8 June 2021, the Group had obtained control over Premium Distribution LLC by acquisition of 100% interest in Premium Distribution LLC from Premium Group LLC, a former ultimate parent company of Central Express CVS JSC. The Group's management classified this transaction as a business combination under common control based on the definition of a business in IFRS 3, Business Combination, and recognised it using the acquisition method. A consideration of MNT 7,724,396 thousand was paid to former owners of Premium Distribution LLC in form of ordinary shares of the Company.	The audit procedures we have performed to address the key audit matter consisted of the following: 1) Assessment of reasonableness of the Group's accounting treatment used for recognition of the acquision of Premium Distribution LLC. 2) Review of the legal documents related to the acquisition of Premium Distribution LLC. 3) Assessment reasonableness of provisional and fair values of the assets and liabilities recognised as a result of the acquisition of Premium Distribution LLC. 4) Check of accuracy of the calculation of goodwill arising in connection with the acquisition of Premium Distribution LLC, which is the difference between the consideration paid to the former owner and the provisional and fair value of the new identifiable assets and liabilities.

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Our audit approach (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
As of 31 December 2021, the Group applied provisional amounts for the acquired assets and liabilities as the assessment of fair value of the business combination was not complete at the end of the reporting period. We focused on this area due to its overall materiality and complexity of the accounting treatment for business combination under common control.	5) Review of the disclosures, including disclosure of the accounting policy, significant judgements and description of the acquisition of Premium Distribution LLC, assessment of their adequacy and completeness and compliance with IFRS.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We planned and determined the scope of our audit for 2021 taking into account the Group's structure. The Group includes the Company and its subsidiary primarily domiciled in Mongolia and operating activities are carried out in Mongolia. Financial information of these entities is included in the consolidated financial statements of the Group.

We performed our audit procedures that covered 100% of the Group's total revenue as at 31 December 2021.

The procedures performed have enabled us to obtain sufficient appropriate audit evidence in relation to the consolidated financial statements of the Group and provide a basis for our audit opinion on it.

Other information

Management is responsible for the other information. The other information comprises Annual Report for financial year ended 31 December 2021 (but does not include the consolidated and separate financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and 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 Group and the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 ISAs 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 Group's and 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 Group's and 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 consolidated and separate 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 Group or the Company to cease to continue as a going concern.

Auditor's responsibilities for the audit of the consolidated and separate financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Shaukat Tapia.

Signed by:

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PRICEWATERHOUSECOOPERS AUDIT LLC

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:

Shaukat Tapia
Partner
PricewaterhouseCoopers Audit LLC

15 April 2022

Ulaanbaatar, Mongolia

Management's Responsibility Statement

We, Chinzorig G, being the Chief Executive Officer of Central Express CVS JSC (the "Group"), and Dashdorj S, being Director of Finance of the Group, do hereby state that, in our opinion, the Accompanying Consolidated and Separate Financial Statements set out on Pages 1 through 49 present fairly, in all material respects, the financial position of the company as at 31 December 2021 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Chinzorig G.

Chief Executive Officer

Dashdorj S., CFA

Director of Finance Department

In thousands of Mongolian Togrogs	Note	Consolidated 31 December 2021	Consolidated 31 December 2020	Separate 31 December 2021	Separate 31 December 2020
ASSETS					
Non-current assets					
Property, plant, and equipment	9	40,471,007	17,916,171	25,390,869	17,916,171
Right-of-use assets	10	22,599,622	16,813,036	22,011,451	16,813,036
Investment in subsidiary	11	-	-	7,724,396	-
Finance lease receivables	13	4,092,438	2,062,987	4,092,438	2,062,987
Intangible assets	12	2,909,300	2,808,115	2,797,336	2,808,115
Goodwill	11	2,818,907	-	-	-
Other receivables	17	1,075,318	404,800	514,392	404,800
Other non-current advances	16	415,869	369,717	415,869	369,717
Deferred income tax assets	32	279,073	240,809	295,519	240,809
Total non-current assets		**74,661,534**	**40,615,635**	**63,242,270**	**40,615,635**
Current assets					
Investments in debt securities	18	14,861,351	-	14,861,351	-
Inventories	15	14,072,542	6,710,974	13,300,216	6,710,974
Cash and cash equivalents	19	4,061,156	6,104,077	3,880,540	6,104,077
Prepayments	16	2,926,557	1,844,388	4,076,307	1,844,388
Trade and other receivables	17	2,419,423	1,469,744	2,627,869	1,469,744
Loan issued	14	2,016,877	-	2,016,877	-
Finance lease receivables - current	13	453,435	171,821	453,435	171,821
Total current assets		**40,811,341**	**16,301,004**	**41,216,595**	**16,301,004**
TOTAL ASSETS		**115,472,875**	**56,916,639**	**104,458,865**	**56,916,639**
EQUITY					
Share capital	20	81,776,864	17,145,256	81,776,864	17,145,256
Share premium	20	13,820,503	-	13,820,503	-
Accumulated deficit		(51,591,071)	(33,525,294)	(49,870,998)	(33,525,294)
TOTAL EQUITY		**44,006,296**	**(16,380,038)**	**45,726,369**	**(16,380,038)**
LIABILITIES					
Non-current liabilities					
Long-term lease liabilities	10	26,918,102	19,570,737	26,776,866	19,570,737
Long-term borrowings	21	14,411,323	10,520,000	7,234,171	10,520,000
Other long-term liabilities		89,444	-	-	-
Total non-current liabilities		**41,418,869**	**30,090,737**	**34,011,037**	**30,090,737**
Current liabilities					
Trade and other payables	24	22,665,543	24,320,649	20,204,431	24,320,649
Lease liabilities	10	3,807,028	1,627,744	3,011,657	1,627,744
Borrowings	21	2,077,020	16,360,739	83,877	16,360,739
Contract liabilities	25	973,614	457,164	954,316	457,164
Other tax payable	23	474,627	439,644	417,300	439,644
Current income tax payable	32	49,878	-	49,878	-
Total current liabilities		**30,047,710**	**43,205,940**	**24,721,459**	**43,205,940**
TOTAL LIABILITIES		**71,466,579**	**73,296,677**	**58,732,496**	**73,296,677**
TOTAL LIABILITIES AND EQUITY		**115,472,875**	**56,916,639**	**104,458,865**	**56,916,639**

Approved for issue and signed on 15 April 2022.

CENTRAL EXPRESS CVS JSC
СЭНТРАЛ ЭКСПРЕСС СИ ВИ ЭС

Chinzorig G.
Chief Executive Officer

Dashdorj S., CFA
Director of Finance Department

		Consolidated		Separate	
In thousands of Mongolian Togrogs	Note	2021	2020	2021	2020
Revenue from contracts with customers	26	94,038,017	45,348,032	94,271,990	45,348,032
Cost of sales	27	(100,906,088)	(50,706,836)	(100,177,420)	(50,706,836)
Gross loss		**(6,868,071)**	**(5,358,804)**	**(5,905,430)**	**(5,358,804)**
General, administrative, and selling expenses	28	(7,854,845)	(5,102,425)	(7,682,385)	(5,102,425)
Other gains/(losses), net	29	689,059	(33,610)	696,280	(33,610)
Other income		250,167	-	224,392	-
Operating loss		**(13,783,690)**	**(10,494,839)**	**(12,667,143)**	**(10,494,839)**
Finance costs	30	(5,700,493)	(5,588,408)	(5,093,505)	(5,588,408)
Finance income	31	1,429,902	159,415	1,429,902	159,415
Loss before income tax		**(18,054,281)**	**(15,923,832)**	**(16,330,746)**	**(15,923,832)**
Income tax expense	32	(11,496)	195,737	(14,958)	195,737
LOSS FOR THE YEAR		**(18,065,777)**	**(15,728,095)**	**(16,345,704)**	**(15,728,095)**
Other comprehensive profit for the year		-	-	-	-
Total comprehensive loss for the year		**(18,065,777)**	**(15,728,095)**	**(16,345,704)**	**(15,728,095)**
Loss per ordinary share for loss from continuing operations attributable to the owners of the Company, basic and diluted (in MNT per share)	33	(37.78)	(91.73)	(34.18)	(91.73)

In thousands of Mongolian Togrogs	Note	Share capital	Share premium	Accumulated deficit	Total equity
Consolidated					
Balance at 1 January 2020		**17,145,256**	**-**	**(17,797,199)**	**(651,943)**
Losses for the period		-	-	(15,728,095)	(15,728,095)
Other comprehensive loss for 2020		-	-	-	-
Balance at 31 December 2020		**17,145,256**	**-**	**(33,525,294)**	**(16,380,038)**
Losses for the period		-	-	(18,065,777)	(18,065,777)
Other comprehensive loss for 2021		-	-	-	-
Issued shares	20	64,631,608	13,820,503		78,452,111
Balance at 31 December 2021		**81,776,864**	**13,820,503**	**(51,591,071)**	**44,006,296**
Separate					
Balance at 1 January 2020		**17,145,256**		**(17,797,199)**	**(651,943)**
Losses for the period		-		(15,728,095)	(15,728,095)
Other comprehensive loss for 2020		-		-	-
Balance at 31 December 2020		**17,145,256**		**(33,525,294)**	**(16,380,038)**
Losses for the period		-		(16,345,704)	(16,345,704)
Other comprehensive loss for 2021		-		-	-
Issued shares	20	64,631,608	13,820,503	-	78,452,111
Balance at 31 December 2021		**81,776,864**	**13,820,503**	**(49,870,998)**	**45,726,369**

In thousands of Mongolian Togrogs	Note	Consolidated 2021	Consolidated 2020	Separate 2021	Separate 2020
Cash flows from operating activities:					
Loss before income tax	33	(18,054,281)	(15,923,832)	(16,330,746)	(15,923,832)
Adjustments for:					
Depreciation of property, plant and equipment	9	5,182,885	3,048,671	4,397,514	3,048,671
Loss from disposal of fixed assets	9	30,992	-	30,992	-
Asset write off	9	29,913	76,645	29,913	76,645
Amortization of intangible assets	12	544,890	454,885	537,831	454,885
Inventory write-off	15	3,571,046	26,870	3,496,895	26,870
Bad debt expense	17	145,538	1,052	144,538	1,052
Depreciation of Right-of-use asset	10	3,624,673	1,823,177	3,195,132	1,823,177
Foreign exchange differences	29	52,740	145,819	52,725	145,819
Finance income	31	(1,429,902)	(159,415)	(1,429,902)	(159,415)
Finance cost	30	5,700,493	5,716,607	5,093,505	5,716,607
Gain on disposal of Right-of-use asset	10	(706,646)	(234,568)	(706,646)	(234,568)
Operating cash flows before working capital changes		**(1,307,659)**	**(5,024,089)**	**(1,488,249)**	**(5,024,089)**
Changes in working capital:					
Increase in trade and other receivables	17	(477,454)	(654,374)	(1,412,255)	(654,374)
Increase in inventories	15	(10,525,886)	(2,713,153)	(10,086,138)	(2,713,153)
Increase in trade and other payables	24	14,989,550	17,331,645	15,812,908	17,331,645
Increase in prepayments	16	(1,726,873)	(977,941)	(1,862,202)	(977,941)
Decrease in other tax payable	23	(49,719)	(77,196)	(22,344)	(77,196)
Increase in contract liabilities	25	516,450	410,500	497,152	410,500
Operating cash flows after working capital changes		**1,418,409**	**8,295,392**	**1,438,872**	**8,295,392**
Interest paid for borrowings	22	(1,770,685)	(2,240,343)	(1,209,127)	(2,240,343)
Income taxes paid	32	(19,790)	(45,072)	(19,790)	(45,072)
Interest paid for lease liabilities	22	(3,987,607)	(2,974,883)	(3,927,317)	(2,974,883)
Interest received		573,856	159,415	573,856	159,415
Net cash used in operating activities		**(3,785,817)**	**3,194,509**	**(3,143,506)**	**3,194,509**
Cash flows from investing activities:					
Purchase of property, plant and equipment	9	13,739,877)	(7,951,042)	(12,561,674)	(7,951,042)
Proceeds from sale of equipment	9	25,863	174,232	25,863	174,232
Purchase of intangible assets	12	(542,004)	(353,020)	(527,052)	(353,020)
Proceeds from sale of intangible assets	12	-	3,251	-	3,251
Receipt from finance lease receivable	10	338,880	571,097	338,880	571,097
Acquisition of subsidiaries, net of cash acquired	36	242,776	-	-	-
Loans granted to related parties	14	(2,000,000)	-	(2,000,000)	-
Acquisition of debt securities at FVTPL	18	(14,700,000)	-	(14,700,000)	-
Net cash used in investing activities		**(30,374,362)**	**(7,555,482)**	**(29,423,983)**	**(7,555,482)**
Cash flows from financing activities					
Proceeds from issue of share capital	20	29,616,600	-	29,616,600	-
Proceeds from borrowings	22	5,192,725	13,787,912	2,886,667	13,787,912
Payment of finance lease liabilities	10	(2,122,067)	(717,602)	(1,742,648)	(717,602)
Payment on borrowings	22	(570,000)	(3,241,964)	(416,667)	(3,241,964)
Net cash from financing activities		**32,117,258**	**9,828,346**	**30,343,952**	**9,828,346**
Effect of exchange rate changes on cash and cash equivalents	29	-	(14,780)	-	(14,780)
Net (decrease)/increase in cash and cash equivalents	19	(2,042,921)	5,467,373	(2,223,537)	5,467,373
Cash and cash equivalents at the beginning of year		**6,104,077**	**651,484**	**6,104,077**	**651,484**
Cash and cash equivalents at end of the year		**4,061,156**	**6,104,077**	**3,880,540**	**6,104,077**

The accompanying notes on pages 5 to 49 are an integral part of these consolidated and separate financial statements.