

APU JSC AND SUBSIDIARIES

Consolidated Financial Statements

For the year ended 31 December 2020

(With Independent Auditors' Report Thereon)

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Directors' Responsibility Statement

APU JSC's Board of Directors is responsible for the preparation of the consolidated financial statements.

The consolidated financial statements of APU JSC and its subsidiaries (together "the Group") have been prepared to comply with International Financial Reporting Standards. The Group's Board of Directors is responsible for ensuring that these consolidated financial statements present fairly the state of affairs of the Group's financial position as at 31 December 2020 and the financial performance and cash flows for the year then ended on that date.

The Group's Board of Directors has responsibility for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the consolidated financial statements comply with the requirements set out in Note 2 to Note 5 thereto.

The Group's Board of Directors also has a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Group's Board of Directors considers that, in preparing the consolidated financial statements including explanatory notes, it has used appropriate policies, consistently applied and supported by reasonable and prudent judgment and estimates, and that all applicable accounting standards have been followed.

The consolidated financial statements of the Group for the year ended 31 December 2020 were authorised for issuance by the Group's Board of Directors.


P. Batsaikhan
Chairman


Ts. Erdenebileg
Chief Executive Officer


G. Enkhbileg
Chief Financial Officer



Ulaanbaatar,
Mongolia

Date: 31 March 2021



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Independent Auditors' Report

To: The Shareholders and Board of Directors
APU Joint Stock Company

Opinion

We have audited the consolidated financial statements of APU JSC and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mongolia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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



Key Audit Matters, continued

Revenue recognition

Refer to Note 16 to the consolidated financial statements and the accounting policies in Note 5 (p).

Area of focus	How our audit addressed the area of focus
<p>Under International Standards on Auditing there is a presumed fraud risk relating to revenue recognition. We have determined this to apply to the occurrence of the revenue because of the pressure management may feel to achieve the planned results.</p> <p>Due to these factors, we have considered revenue recognition to be a key audit matter relevant to our audit of the consolidated financial statements.</p>	<p>Our audit procedures over revenue included, among others:</p> <ul style="list-style-type: none">- We tested selected controls management has in place over the sales and revenue recognition process, focusing on controls over the existence, accuracy and timing of revenue recognition.- We challenged the revenue recognition policies adopted by the Group by making inquiries of management and inspecting a sample of sales contracts to understand the delivery terms of the transactions so as to assess the Group's timing of revenue recognition with reference to the requirements of the prevailing accounting standards.- We assessed whether revenue was recognized in the appropriate accounting period and in accordance with the terms of the sales contracts by comparing a sample of sales transactions recorded around the year end with relevant underlying documents, which included goods dispatch notes or documentation indicating the customers' acknowledgment of delivery of the goods sold.- We performed trend analyses of the main revenue lines of the Group, we developed an expectation of the Group's revenue using quantities and prices, and we performed audit procedures over sales between the Group and its customers such as customer confirmations.- We searched for journal entries to the sales account recorded outside the regular sales process.- We assessed the disclosures in the consolidated financial statements in relation to the revenue with reference to the requirements of IFRS 15.



Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

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

- Identify and assess the risks of material misstatement of the consolidated 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 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 auditors' report is Mark Eberst, and the General Director of the audit firm is Soyolmaa Gungaanyambuu.



KPMG Audit LLC
Ulaanbaatar, Mongolia
31 March 2021

Signed by:

Approved by:

Soyolmaa Gungaanyambuu
General Director

Mark Eberst
Partner

This report is effective as at 31 March 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholders of the Group. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

APU Joint Stock Company and Subsidiaries
Consolidated Statement of Financial Position
As at 31 December 2020

<i>(In thousands of MNT)</i>	Note	31 Dec 2020	31 Dec 2019
Assets			
Property, plant and equipment	6	262,519,795	260,112,683
Intangible assets and goodwill	7	87,305,933	92,149,037
Deferred tax assets	23	1,252,348	605,045
Non-current assets		351,078,076	352,866,765
Inventories	8	83,348,435	89,521,542
Prepayments and prepaid expenses	9	17,664,409	9,352,738
Income tax receivable	23	-	3,908,627
Trade and other receivables	10,26	39,013,069	39,822,776
Other financial investments	26	500,000	-
Cash and cash equivalents	11,26	64,059,208	50,034,921
Current assets		204,585,121	192,640,604
Total assets		555,663,197	545,507,369
Equity			
Share capital	12	106,297	106,297
Share premium	12	338,094,870	338,094,870
Merger reserve	12	(112,795,804)	(112,795,804)
Revaluation reserve	6,12	100,177,551	101,458,119
Foreign currency translation reserve		(21,285)	8,230
Retained earnings		129,937,425	154,411,091
Equity attributable to owners of the Group		455,499,054	481,282,803
Non-controlling interest	27	6,116,626	-
Total equity		461,615,680	481,282,803
Liabilities			
Deferred tax liabilities	23	18,088,647	19,383,756
Long-term lease liabilities	24	7,764,189	8,421,583
Employee benefits	13	656,483	-
Long-term borrowings	15	2,000,000	-
Non-current liabilities		28,509,319	27,805,339
Short-term lease liabilities	24	2,318,607	1,700,649
Income tax payable	23	2,698,028	1,318,469
Trade payables	14	11,312,407	12,001,780
Other payables	14	49,209,156	21,398,329
Current liabilities		65,538,198	36,419,227
Total liabilities		94,047,517	64,224,566
Total equity and liabilities		555,663,197	545,507,369

The accompanying notes form an integral part of these consolidated financial statements.

APU Joint Stock Company and Subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2020

<i>(In thousands of MNT)</i>	Note	2020	2019
Revenue	16	492,337,445	472,634,238
Cost of sales	17	(263,409,644)	(260,200,063)
Gross profit		228,927,801	212,434,175
Selling and administrative expenses	18	(112,671,108)	(112,451,819)
Impairment loss on financial assets	10, 11	(540,903)	(410,290)
Other income	19	2,909,656	3,128,412
Other expenses	20	(2,784,954)	(3,305,484)
Profit from operations		115,840,492	99,394,994
Finance income	21	850,351	1,728,328
Finance costs	22	(2,248,080)	(2,575,511)
Profit before income tax		114,442,763	98,547,811
Income tax expense	23	(25,699,879)	(22,434,916)
Profit for the year		88,742,884	76,112,895
Other comprehensive income:			
<i>Items that will never be reclassified to profit or loss:</i>			
Exchange rate differences on translation		(29,515)	35,293
Total comprehensive income for the year		88,713,369	76,148,188
Profit/(Loss) attributable to:			
Owners of the Parent Company		89,578,526	76,062,489
Non-controlling interest		(835,642)	50,406
Profit for the year		88,742,884	76,112,895
Total comprehensive income/(loss) attributable to:			
Owners of the Parent Company		89,549,011	76,097,782
Non-controlling interest		(835,642)	50,406
Total comprehensive income for the year		88,713,369	76,148,188
Earnings per share			
Basic earnings per share	32	84.3	71.6

The accompanying notes form an integral part of these consolidated financial statements.

APU Joint Stock Company and Subsidiaries
Consolidated Statement of Changes in Equity
For the year ended 31 December 2020

	Attributable to owners of the Parent Company						Total	Non-controlling interest (Note 27)	Total equity
	Share capital (Note 12)	Share premium (Note 12)	Merger reserve (Note 12)	Revaluation reserve (Note 6,12)	Foreign currency translation reserve	Retained earnings			
<i>(In thousands of MNT)</i>									
Balance at 1 January 2019	106,297	338,094,870	(112,795,804)	102,499,344	(6,646)	124,765,611	452,663,672	1,731,044	454,394,716
<i>Total comprehensive income:</i>									
Profit for the year	-	-	-	-	-	76,062,489	76,062,489	50,406	76,112,895
Other comprehensive income	-	-	-	-	35,293	-	35,293	-	35,293
<i>Transactions with owners:</i>									
Dividends declared	-	-	-	-	-	(48,898,753)	(48,898,753)	-	(48,898,753)
<i>Changes in ownership interest:</i>									
Acquisition of non-controlling interest without a change in control	-	-	-	-	-	1,420,102	1,420,102	(1,781,450)	(361,348)
Transfers to retained earnings	-	-	-	(1,041,225)	(20,417)	1,061,642	-	-	-
Balance at 31 December 2019	106,297	338,094,870	(112,795,804)	101,458,119	8,230	154,411,091	481,282,803	-	481,282,803
Balance at 1 January 2020	106,297	338,094,870	(112,795,804)	101,458,119	8,230	154,411,091	481,282,803	-	481,282,803
<i>Total comprehensive income:</i>									
Profit for the year	-	-	-	-	-	89,578,526	89,578,526	(835,642)	88,742,884
Other comprehensive loss	-	-	-	-	(29,515)	-	(29,515)	-	(29,515)
<i>Transactions with owners:</i>									
Dividends declared	-	-	-	-	-	(115,332,760)	(115,332,760)	-	(115,332,760)
Establishment of subsidiary with NCI	-	-	-	-	-	-	-	6,952,268	6,952,268
Transfers to retained earnings	-	-	-	(1,280,568)	-	1,280,568	-	-	-
Balance at 31 December 2020	106,297	338,094,870	(112,795,804)	100,177,551	(21,285)	129,937,425	455,499,054	6,116,626	461,615,680

The accompanying notes form an integral part of these consolidated financial statements

APU Joint Stock Company and Subsidiaries
Consolidated Statement of Cash Flows
For the year ended 31 December 2020

(In thousands of MNT)

	Note	2020	2019
Cash flows from operating activities			
Profit for the year		88,742,884	76,112,895
Adjustments for:			
Income tax expense	23	25,699,879	22,434,916
Interest expense on loans	22	20,515	-
Interest expense on lease liabilities	22	2,227,565	2,203,914
Interest income	21	(724,329)	(1,728,328)
Unrealised foreign exchange gain, net		(493,685)	(188,657)
Depreciation	6	32,266,864	32,134,355
Amortisation	7	7,126,040	6,866,558
Impairment loss on trade and other receivables, net	10	502,903	170,333
Impairment loss on bank balances	11	38,000	239,957
Impairment loss on slow moving and obsolete items	8	819,752	600,081
Gain on disposal of property, plant and equipment	19	(26,017)	(197,345)
Loss on disposal of property, plant and equipment	20	513,377	255,885
Loss on write-off of property, plant and equipment	20	657,030	502,942
Loss on write-off of intangible assets	20	-	4,854
		157,370,778	139,412,360
Changes in assets and liabilities:			
Trade and other receivables		96,616	(5,122,284)
Inventories		5,301,114	(14,408,295)
Prepayments		(8,315,933)	1,477,648
Trade payables		(578,781)	21,055
Other payables		13,882,086	(580,258)
Employee benefits		656,483	-
		168,412,363	120,800,226
Interest on loans paid		(101,153)	-
Interest on lease liabilities paid	24	(2,227,565)	(2,203,914)
Interest received	21	724,329	1,728,328
Income taxes paid	23	(22,374,963)	(31,688,732)
Net cash provided by operating activities		144,433,011	88,635,908

APU Joint Stock Company and Subsidiaries
 Consolidated Statement of Cash Flows, continued
 For the year ended 31 December 2020

<i>(In thousands of MNT)</i>	Note	2020	2019
Cash flows from investing activities			
Acquisition of property, plant and equipment		(35,288,862)	(22,226,957)
Acquisition of intangible assets		(1,352,848)	-
Acquisition of non-controlling interest	27	-	(57,686)
Proceeds from disposal of property, plant and equipment	6, 19, 20	1,027,324	1,004,525
Acquisition of other financial investments		(500,000)	-
Net cash used in investing activities		(36,114,386)	(21,280,118)
Cash flows from financing activities			
Dividends paid	12	(101,739,614)	(77,121,281)
Payment of lease liabilities	24	(2,137,721)	(1,241,819)
NCI portion of new capital issued by subsidiary	27	6,952,268	-
Proceeds from long-term borrowings	15	2,000,000	-
Net cash used in financing activities		(94,925,067)	(78,363,100)
Exchange difference on translating foreign operation		(34,207)	23,873
Net increase (decrease) in cash and cash equivalents		13,359,351	(10,983,437)
Cash and cash equivalents at the beginning of year	11	50,034,921	61,123,898
Impairment loss on cash and cash equivalents	11	(38,000)	(239,957)
Effect of foreign exchange rate fluctuations on cash held		702,936	134,417
Cash and cash equivalents at the end of year	11	64,059,208	50,034,921

The accompanying notes form an integral part of these consolidated financial statements.