

Gazar Shim Industry JSC

English translation of the Audited Financial  
Statements for the year ended  
31 December 2023 and  
Independent Auditor's Report

*This report has been translated from Mongolian to English*

GAZAR SHIM INDUSTRY JSC  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023

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## INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gazar Shim Industry JSC,

Report on the Audit of the financial statements

### Opinion

We have audited the financial statements of Gazar Shim Industry JSC (the "**Company**"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in **owners'** equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### 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** Financial statements section of our report. We are independent of the Company in accordance with the International **Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants** (including International Independence Standards) (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We identified the following issues as key audit matters.

Key audit matters	Procedures performed by us
<p><i>Revenue recognition</i></p> <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 financial statements.</p>	<p>Our audit procedures over revenue included, among others:</p> <ul style="list-style-type: none"><li>• We obtained an understanding of the Company's business process and controls in place over the sales and revenue recognition process.</li><li>• We selected samples from the sales ledger and traced them to the related supporting documents in order to assess whether the sales have been occurred and accounted for at correct amount and in the proper accounting period.</li><li>• In addition, we recalculated the Company's revenue using the sold quantities and the approved selling prices.</li></ul>

### About Onch & Company

Onch & Company and its affiliated entities provide audit, risk advisory, tax, consulting, financial advisory, and research & training services in Mongolia.

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Key audit mattersProcedures performed by us

- We performed audit procedures over sales between the Company and its customers through sending confirmation letters to the customers.
- We performed subsequent credit note review and customer verification of existence.
- We searched and tested the unusual journal entries to the sales account recorded outside the regular sales process.

**Other Information**

The management of the Company is responsible for the other information. The other information comprises the information included in the statement by executives, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 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 financial statements**

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs issued by the International Accounting Standards Board, and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**Auditor's Responsibilities for the Audit of the Financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 financial statements.

**Auditor's Responsibilities for the Audit of the Financial statements (cont'd)**

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 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 the management.
- Conclude on the appropriateness of the 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 audit.

Onch Audit LLC  
Ulaanbaatar, Mongolia  
17 April 2024

Signed by:

Ankhtaivan Batsukh  
Partner, CPA

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GAZAR SHIM INDUSTRY JSC  
STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 31 DECEMBER 2023  
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2023	2022
<b>ASSETS</b>			
<i>Current assets</i>			
Cash and cash equivalents	6	20,062,944	1,785,892
Account and other receivables	7	3,683,893	6,122,274
Prepayments	8	3,368,857	2,857,480
Inventories	9	11,451,680	10,904,852
		<u>38,567,374</u>	<u>21,670,498</u>
<i>Non-current assets</i>			
Property, plant and equipment	10	8,134,587	7,474,665
Intangible assets	11	3,346,318	3,922
Deferred tax assets	17.3	1,535	-
		<u>11,482,440</u>	<u>7,478,587</u>
Total assets		<u>50,049,814</u>	<u>29,149,085</u>
<b>LIABILITIES AND EQUITY</b>			
<i>Current liabilities</i>			
Accounts and other payables	12	932,714	593,243
Contract liabilities	13	567,058	-
Corporate income tax payable	17.2	791,192	174,750
Borrowings	14	1,717,691	692,571
Deferred income	14.3	785,642	227,429
		<u>4,794,297</u>	<u>1,687,993</u>
<i>Non-current liabilities</i>			
Borrowings	14	5,603,354	1,586,210
Deferred income	14.3	1,196,646	138,250
Deferred tax liabilities	17.3	-	7,552
		<u>6,800,000</u>	<u>1,732,012</u>
Total liabilities		11,594,297	3,420,005
<b>Equity</b>			
Share capital	15	131,792	110,000
Additional paid-in capital	16	9,848,102	-
Other equity		-	380,000
Retained earnings		28,475,623	25,239,080
		<u>38,455,517</u>	<u>25,729,080</u>
<b>Total Liabilities and Owners' Equity</b>		<u>50,049,814</u>	<u>29,149,085</u>

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

GAZAR SHIM INDUSTRY JSC  
 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 31 DECEMBER 2023  
 (IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2023	2022
Revenue	18.1	34,312,210	30,153,766
Cost of sales	18.2	<u>(19,779,910)</u>	<u>(20,487,892)</u>
Gross profit		14,532,300	9,665,874
Other income	19	680,373	412,476
Finance cost	14.2	(596,118)	(726,239)
General and administrative expenses	20	(5,103,147)	(4,574,848)
Impairment losses on financial assets	7.1	(1,712,903)	(50,000)
Other gains and (losses), net	21	<u>(50,687)</u>	<u>(53,782)</u>
Profit before tax		7,749,818	4,673,481
Income tax expense	17	<u>(1,213,275)</u>	<u>(522,735)</u>
Net profit for the year		6,536,543	4,150,746
Other comprehensive income		-	-
Total comprehensive income for the year		<u>6,536,543</u>	<u>4,150,746</u>
Earnings per share (in MNT)		<u>5.46</u>	<u>4.15</u>

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

GAZAR SHIM I INDUSTRY JSC  
 STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 31 DECEMBER 2023  
 (IN THOUSANDS OF MONGOLIAN TOGROGS)

	Share Capital	Additional paid in Capital	Other equity	Retained Earnings	Total equity
Balance as at 31 December 2021	110,000	-	380,000	21,088,334	21,578,334
Net profit for the year	-	-	-	4,150,746	4,150,746
Balance as at 31 December 2022	110,000	-	380,000	25,239,080	25,729,080
Issuance of additional shares (Note 15,16)	21,792	9,848,102	-	-	9,869,894
Other movements	-	-	(380,000)	-	(380,000)
Net profit for the year	-	-	-	6,536,543	6,536,543
Dividends declared (Note 22.2)	-	-	-	(3,300,000)	(3,300,000)
Balance as at 31 December 2023	131,792	9,848,102	-	28,475,623	38,455,517

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



GAZAR SHIM I INDUSTRY JSC  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2023  
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2023	2022
<b>Cash flows from operating activities</b>			
Profit before tax		7,749,818	4,673,481
Adjustments for:			
Depreciation expense	10	848,605	796,484
Amortisation expense	11	31,324	7,482
Foreign exchange loss/(gain)		13,309	(59,708)
Loss on disposal of property, plant and equipment	21	24,211	16,766
Inventory write off expense	20	80,684	25,923
Impairment loss on financial assets	7.1	1,712,903	50,000
Interest income	19	(193,117)	(10,841)
Interest expense	14.2	596,118	726,239
Amortisation of deferred income	19	(413,299)	(309,063)
		<u>10,450,556</u>	<u>5,916,763</u>
Decrease in receivables and other receivables		777,368	2,807,213
(Increase)/decrease in prepayments		(511,377)	2,574,943
Increase in inventories		(627,512)	(8,202,058)
Increase/(decrease) in trade and other payables		339,471	(26,622)
Increase in contract liabilities		567,058	-
Increase/(decrease) in deferred income		<u>1,616,609</u>	<u>(309,063)</u>
		12,612,173	2,761,176
Interest income received		141,227	10,841
Income taxes paid	17.2	<u>(605,920)</u>	<u>(867,307)</u>
<b>Cash flows from operating activities</b>		<b>12,147,480</b>	<b>1,904,710</b>
<b>Cash flows from investing activities</b>			
Payments for acquisitions of property, plant and equipment	10	(1,592,336)	(900,797)
Payments for acquisitions of intangible assets	11	(3,373,720)	-
Proceeds from the sale of property, plant and equipment		<u>59,598</u>	<u>273,598</u>
<b>Cash flows used in investing activities</b>		<b>(4,906,458)</b>	<b>(627,199)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	14.2	5,970,092	2,545,288
Repayment of borrowings	14.2	(927,828)	(2,990,376)
Interest paid	14.2	(182,819)	(417,176)
Dividend paid	22.2	(3,300,000)	(1,050,000)
Proceeds from issuance of additional shares	15,16	9,869,894	-
Repayment of advances received from shareholder		<u>(380,000)</u>	<u>-</u>
<b>Net cash flows from/(used in) financing activities</b>		<b>11,049,339</b>	<b>(1,912,264)</b>
Effects of exchange rate changes on cash		(13,309)	30,052
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>18,277,052</b>	<b>(604,701)</b>
Cash and cash equivalents, at beginning of the year		<u>1,785,892</u>	<u>2,390,593</u>
Cash and cash equivalents, at end of the year	6	<u>20,062,944</u>	<u>1,785,892</u>

The accompanying notes form an integral part of these financial statements