



DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

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INDEPENDENT AUDITOR'S REPORT

TO: THE BOARD OF DIRECTORS OF ARD FINANCIAL GROUP CJSC

Opinions

We have audited the consolidated financial statements of ARD FINANCIAL GROUP CJSC which comprise the statements of financial position as at December 31, 2018, the statements of profit or loss and other comprehensive income, the statements of changes in equity, the statements of cash flow for the year then ended and the notes to the financial statements including highly significant accounting policies of ARD FINANCIAL GROUP CSJC and its component companies.

In our opinion, the consolidated statement of financial position, profit or loss and other comprehensive income, changes in equity and cash flow as at December 31, 2018 present fairly and are, in all material respects, in compliance with the International Financial Reporting Standards.

Opinion basis

We conducted our audit in accordance with the International Standards on Auditing (ISA). According to the standards, our responsibilities are stated in the auditor's responsibility for financial statement audit section of this financial statement. We have complied with ethical requirements of financial statements auditing in order to be independent of our customer and comply with ethical responsibilities and other obligations under these requirements.

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

Audit key issues

The audit key issues, that draw our best attention, are identified by our professional solution during the auditing of financial statements for the reporting year. The audit key issues are carefully considered during the conducting of our audit on financial statements and determining the type of audit opinion for financial statements. However, we do not provide separate opinion on these key issues.

1. In compliance with the decree No.: 2018/1, dated on March 29, 2018, issued by the board of directors, the share capital of the company was increased by the paid-in capital of 787,500,000MNT and the par value of the company's ordinary share was increased from 100,000MNT to 160,000MNT accordingly. It did not result any changes in the percentages and numbers of the shares owned by the shareholders. In addition, by the decree No.: 2018/2, dated on May 25, 2018, the par value of the ordinary share was decreased from 160,000MNT to 10MNT per share and respectively the total number of the shares was increased by 16,000 folds. During the audit, we were presented with the details of the board of directors' meeting and re-estimated the par value calculations of the shares.

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Audit key issues (continued)

2. During the reporting period, ARD CREDIT NBF1 LLC began the preparation to launch initial public offering and to issue a total of 70,000,000 ordinary shares, which is equivalent to 25% of the share capital, to the public. The request to restructure the company was made to the regulatory organizations in accordance with the law of entity and the request was approved by the Mongolian Stock Exchange and the Financial Regulatory Commission of Mongolia.

During the audit, we were presented with the board of director's decisions regarding the IPO and the orders issued by the Mongolian Stock Exchange and the Financial Regulatory Commission of Mongolia.

3. During the reporting period, the process of the business combination of ARD FINANCIAL GROUP CJSC and JINST UVS JSC. In order to discuss the business combination process, the extraordinary general meeting of the board of directors took place on April 28, 2018. The resolution of the board of directors was passed to approve the business combination with JINST UVS JSC.

In accordance with the resolution of the board of directors, both companies entered into the business combination agreement between JINST UVS JSC and ARD FINANCIAL GROUP CJSC. In compliance with the law of entity of Mongolia, a request to combine the businesses was made to the respective regulatory bodies and the Mongolian Stock Exchange approved the request.

During the audit, we were presented with the legislative documents such as orders and resolutions issued by the corporate governance, the agreements made between the companies, and the order of the executive director of the Mongolian Stock Exchange, etc. The business combination is pending due to the pending approval from the Financial Regulatory Commission of Mongolia.

Other information

The management is responsible for other information. Although other information comprises the information reported in the annual statement, the financial statements and auditor's report may not be included in the other information. Therefore, we do not express assurance over other information.

An audit includes reading the other information to consider whether this information is in compliance with the financial statements in a material respect. If we have revealed that there is a misreporting in a material respect in other information based on our work, an audit must disclose those misreporting. During the audit, such a situation did not arise.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The responsibilities of the management and governing management for the financial statements

The management is responsible for the preparation and fair presentation of financial statements in accordance with the IFRS, whereas these responsibilities include identifying the internal control relevant to the preparation and fair presentation of financial statements that are free from fraud and error incurred from material misstatement.

The management is responsible for conducting the operations in accordance with the principle of continuous financial statement preparation based on going concern and constantly evaluating the company's ability management financial statements, except the cases of insolvency, or ceasing its activities, and to have to disclose additional clarification relevant to continuity of the accounting basis used for accounting.

Corporate governance is responsible for the supervision of the financial reporting process.

Auditor's responsibility in financial statement audit

Our goal is to prepare the auditor's report indicating our opinion with the assurance that financial statements in the whole that are free from fraud and error incurred from material misstatement. Most reasonable assurance is the highest guarantee with a high level of assurance, but it does not detect all misstatements upon an audit conducted in accordance with ISA. If it is considered that error or fraud is in a substantial amount, then it may influence the economic decisions of users of financial statements.

According to ISA, we had a professional skeptical approach throughout the audit. And we have performed the following tasks:

- We have assessed whether the financial statements have material misstatement incurred from fraud or error, undertaken audit procedures to determine its response, obtained sufficient appropriate audit evidence as to the basis for the opinion. An alleged conspiracy to forging operations, and deliberate neglect, ignorance of internal controls has risks of not detecting material misstatements and misreporting, instead of one error.
- In order to develop appropriate audit procedures we have gained an understanding of the company's internal control system, but we have no intention to evaluate the effectiveness of internal control.
- We have assessed the appropriateness of the Company's accounting policies and accounting estimates and disclosures used.
- If the company is going concern has a material uncertainty, then we will focus on the relevant disclosure of financial statements. If this is enough to mention the relevant disclosures, we shall change our opinions. Our audit report related to the audit findings based on evidence until the date of the auditor's report. Therefore, their ability to influence the situation on a going concern basis the company may arise in the future.
- We reviewed the entire structure, content, presentation, and disclosure of financial statements and assessed the accuracy of transactions and events financial statement presentation.

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

We had communicated with the governing management in regard of the audit scope, timing, and other related issues, and in addition to significant and important issues during the audit and the internal control weaknesses observed during the audit.

And we have notified governing management with the relevant ethical requirements regarding the independence of the auditor and discussed any relationships that may affect our independence, and possibilities of preventive measures, and other issues.

We have identified the most important audit issues that are considered as most important and communicated with the governing management. We have shown in the auditor's report most important key issues, since public disclosure may result in the negative consequences these foreseen by laws, and we have stated these in the auditor's report.

Other

This report intended only for the shareholders of the company in accordance with Article 94 of the law of entity and we shall not be liable to any third party in regard to this reporting framework.



**DALAIVAN AUDIT LLC
ULAANBAATAR
MONGOLIA**

APRIL 20, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2018.12.31	2017.12.31
		MNT	MNT
		thousands	thousands
<u>ASSETS</u>			
<u>Current assets</u>			
Cash and cash equivalents	6.1.	10,612,983	5,811,226
Trade and other receivables	6.2.	11,758,232	2,483,398
Current tax assets	6.11.	15,497	14,826
Short-term loans – net	6.3.	8,056,299	7,871,822
Short-term investments	6.5.	3,927,837	2,908,681
Inventories	6.13.	75,973	41,991
Prepaid expenses	6.12.	3,541,360	1,664,551
Current assets held for sale	6.14.	2,207,375	1,626,929
Total current assets		<u>40,195,556</u>	<u>22,423,424</u>
<u>Non-current assets</u>			
Property, plant and equipment – net	6.15.	1,191,676	3,065,520
Intangible assets – net	6.16.	560,051	276,589
Investment property	6.17.	3,192,791	
Goodwill	6.18.	6,187,485	6,187,485
Long-term loans	6.4.	1,982,190	1,893,162
Investments in associates	6.6.	13,251,585	12,635,335
Other investments	6.6.	750,970	2,791,770
Total non-current assets		<u>27,116,748</u>	<u>26,849,861</u>
TOTAL ASSETS		<u>67,312,303</u>	<u>49,273,285</u>
<u>LIABILITIES</u>			
<u>Short-term liabilities</u>			
Trade and other payables	6.7.	13,208,402	6,857,002
Loans received from the bank and financial institutions	6.10.	2,222,755	1,646,521
Finance lease payables	6.9.		34,471
Current tax liabilities	6.11.	260,849	242,091
Provisions	6.20.	1,650,348	1,023,396
Unearned revenue	6.19.	6,247,134	3,996,100
Total short-term liabilities		<u>23,589,488</u>	<u>13,799,581</u>
<u>Long-term liabilities</u>			
Loans received from the bank and financial institutions	6.10.	122,097	60,347
Finance lease payables	6.9.		87,907
Bonds issued	6.8.	7,382,789	4,524,781
Deferred tax liabilities	6.21.	104,527	64,328
Provisions	6.20.	716,923	641,253
Total long-term liabilities		<u>8,326,336</u>	<u>5,378,616</u>
TOTAL LIABILITIES		<u>31,915,824</u>	<u>19,178,197</u>

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	2018.12.31 MNT thousands	2017.12.31 MNT thousands
<u>EQUITY</u>			
Issued capital	6.22.	1,879,653	1,879,653
Treasury shares	6.22.	(441,474)	(532,287)
Paid-in capital	6.22.	2,689,664	2,835,451
Revaluation surplus	6.22.	627	
Other equity interest	6.22.	13,799	13,799
Special purpose reserve	6.22.	21,110	
Non-controlling interests	6.23.	4,112,841	966,542
Retained earnings	6.22.	27,120,260	24,931,930
TOTAL EQUITY		<u>35,396,480</u>	<u>30,095,088</u>
TOTAL LIABILITIES AND EQUITY		<u>67,312,303</u>	<u>49,273,285</u>

"DALAIWAN AUDIT" Co., Ltd
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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
 OTHER COMPREHENSIVE INCOME**

	Notes	2018.12.31. MNT thousands	2017.12.31. MNT thousands
Sales revenue	6.24.	17,514,330	9,540,892
Cost of sales	6.25.	<u>(6,752,501)</u>	<u>(4,364,426)</u>
<i>Gross profit</i>		<u>10,761,830</u>	<u>5,176,466</u>
Rental income	6.26.	155,913	117,065
Interest income	6.27.	1,340,143	1,679,710
Other income	6.26.	759,877	781,108
Wages and salaries	6.28.	(4,442,708)	(2,826,719)
General and administrative expense	6.29.	(3,618,254)	(3,237,011)
Interest expense	6.27.	(852,799)	(359,091)
Other expenses	6.30.	(577,102)	(464,710)
<i>Operating profit (loss)</i>		<u>3,526,900</u>	<u>866,818</u>
Gains (losses) on foreign currency exchange differences	6.27.	(90,327)	(197,595)
Gains (losses) on disposals of property, plant, and equipment	6.31.	(10,492)	103,077
Gains (losses) on disposals of intangible assets			
Gains (losses) on sales of investments	6.31.	698,978	2,355,382
Other profit (loss)			
<i>Profit (loss) before tax</i>		<u>4,125,060</u>	<u>3,127,682</u>
Income tax expense	6.32.	(333,293)	(319,554)
<i>Profit (loss) after tax</i>		<u>3,791,766</u>	<u>2,808,128</u>
<i>Non-controlling interest expense</i>	6.33.	(424,440)	(176,573)
<i>Profit (loss) for the year – net</i>		<u>3,367,326</u>	<u>2,631,555</u>

"DALAIVAN AUDIT" Co., Ltd
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ARD FINANCIAL GROUP CJSC
Consolidated financial statements as at December 31, 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital MNT thousands	Treasury shares MNT thousands	Paid-in capital MNT thousands	Revaluation surplus MNT thousands	Special purpose reserve MNT thousands	Retained earnings MNT thousands	Other equity interest MNT thousands	Non-controlling interest MNT thousands	Total MNT thousands
Balance at December 31, 2016	<u>1,879,653</u>	<u>(471,579)</u>	<u>4,255,666</u>			<u>22,672,884</u>	<u>13,799</u>	<u>1,058,351</u>	<u>29,408,774</u>
Changes in accounting policy and prior period errors								296,744	296,744
Increase (decrease) in treasury shares		(219,497)	(4,636,671)						(4,856,168)
Outstanding treasury shares		158,789	1,966,382						2,125,171
Purchased from non-controlling interest								(520,979)	(520,979)
Profit (loss) for the year – net						2,631,555		176,573	2,808,128
Dividends declared						(372,510)		(44,667)	(44,667)
Other adjustments			1,250,074					521	878,085
Balance at December 31, 2017	<u>1,879,653</u>	<u>(532,287)</u>	<u>2,835,451</u>			<u>24,931,929</u>	<u>13,799</u>	<u>966,543</u>	<u>30,095,088</u>
Changes in accounting policy and prior period errors								257,128	257,128
Increase (decrease) in treasury shares		(277,288)	(641,712)						(919,000)
Outstanding treasury shares		368,102	495,925	627	21,110	(44,790)		2,948,505	864,026
Changes in structuring						3,367,326		424,440	2,925,452
Profit (loss) for the year – net						(655,339)		(226,647)	3,791,766
Dividends declared						(735,994)			(881,986)
Other adjustments									(735,994)
Balance at December 31, 2018	<u>1,879,653</u>	<u>(441,474)</u>	<u>2,689,664</u>	<u>627</u>	<u>21,110</u>	<u>27,120,260</u>	<u>13,799</u>	<u>4,112,841</u>	<u>35,396,480</u>

"DALAIWAN AUDIT" Co., Ltd
CERTIFIED ACCOUNTING

CONSOLIDATED STATEMENT OF CASH FLOWS

	2018.12.31 MNT thousands	2017.12.31 MNT thousands
1. CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
<i>1.1 Cash receipts from operating activities</i>	29,402,439	19,998,700
Receipts from sales of goods and rendering services	23,845,402	12,091,223
Receipts from royalties, fees, commissions, and other revenue	85,634	91,191
Receipts from premiums and claims	70	18,014
Income tax refund		
Receipts from subsidy		
Other cash receipts from operating activities	5,471,332	7,798,271
<i>1.2 Cash payments from operating activities</i>	(25,530,403)	(17,629,687)
Payments to and on behalf of employees	(2,662,959)	(1,815,914)
Payments of social insurance contributions	(610,779)	(421,320)
Payments to suppliers for goods and services	(792,139)	(503,110)
Payments of utility expense	(913,519)	(251,826)
Payments of fuel and spare parts	(77,266)	(63,005)
Interest paid (loans, bonds and trust funds)	(1,217,860)	(915,780)
Income tax paid	(875,631)	(608,731)
Payments for premiums and claims	(6,857)	(17,047)
Other cash payments from operating activities	(18,373,395)	(13,032,956)
Cash flows from (used in) operating activities – net	<u>3,872,035</u>	<u>2,369,012</u>
2. CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Interest received	541,891	551,496
Dividends received	107,034	179,659
Cash receipts from repayment of advances and loans made to other parties	17,495,654	11,129,013
Proceeds from sales of property, plant, and equipment	233,599	164,190
Proceeds from sales of investments	10,536,386	2,233,761
Purchase of investments	(17,456,868)	(4,937,320)
Purchase of property, plant, and equipment	(265,084)	(179,224)
Purchase of intangible assets	(48,955)	(13,690)
Cash advances and loans made to other parties	(14,111,567)	(12,073,455)
Purchase of other long-term assets	(768,303)	(492,066)
Cash flows from (used in) investing activities – net	<u>(3,736,213)</u>	<u>(3,437,637)</u>

"DALAIVAN AUDIT" Co., LLC
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CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	2018.12.31 MNT thousands	2017.12.31 MNT thousands
3. CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from borrowings, bonds, and trust funds	8,729,166	15,679,619
Repayments of borrowings, bonds, and trust funds	(8,894,496)	(9,864,827)
Proceeds from issuing shares and other equity instruments	5,056,800	543,662
Payments to acquire shares and other equity instruments	(160,602)	(420,517)
Dividends paid	(542,363)	(152,200)
Other cash receipts from financing activities	477,430	20,842
Cash flows from (used in) financing activities – net	<u>4,665,934</u>	<u>5,806,579</u>
Total cash flows – net	<u>4,801,756</u>	<u>4,737,954</u>
Cash and cash equivalents at beginning of period	<u>5,811,226</u>	<u>1,073,272</u>
Cash and cash equivalents at end of period	<u>10,612,983</u>	<u>5,811,226</u>

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