ANNUAL REPORT 2021

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Chairman's letter

Dear Shareholders,

On behalf of the management team and staff at Central Express CVS JSC, I am pleased to share with you the achievements and lessons learnt from 2021, as well as the challenges and opportunities that await us.

The year 2021 marked a historical milestone for us. Even tough we faced numerous challenges since we introduced CU brand in Mongolia, we managed to overcome those challenges and achieved our goal of becoming a public company. By becoming a publicly listed company, we started a new chapter of our Company's development and became accountable to thousands of our investors. Hereby, we would like to express our sincere gratitude to our shareholders who have placed their trust in our Company.

In 2021, we successfully expanded our business as planned. As of April 2022, number of our stores reached to 200 serving more than 80 thousand customers daily. These CU stores that we are creating together have become a clean, healthy place of recreation where city dwellers can get convenience services and recharge themselves at any time of the day or night. We are filled with aspirations to be the closest to our customers and add value to their daily lives.

Despite the increase in barriers and challenges posed by the globalizing world, our future success depends on our own efforts. We aim to introduce internationally accepted innovative services to our business and make the lives of our citizens more convenient by cooperating with our suppliers to focus on delivering a sustainable supply of healthy and quality food.

In the future, we will not only focus on creating new value for our domestic customers, but also rely on the CU network of over 16 thousand stores around the world to launch Mongolian exporters into the international market and increase the value of Mongolian brands.

We will strive to set example and demonstrate to our shareholders that creating social value and sharing it with its stakeholders are the foundation for sustainable growth and development of a company.

LET'S INCREASE OUR SHARED VALUE!

Gankhuyag Adilbish

Chairman of the Board of Directors

Chief executive greeting

Dear Shareholders,

Over the past thirty years, the lifestyle of Mongolians has changed significantly. The pace of our daily life is becoming busier than ever. Four years ago, to suit the needs of this modern lifestyle we've decided to establish an always open, everywhere store with world-class service in Mongolia. Three and a half years ago, by acquiring the Master Franchise rights of one of the world's leading brands "CU", we opened our first CU convenience store in Mongolia. At the end of 2021, we have expanded to 165 stores, serving 60 thousand people every day, becoming an integral part of the daily lives of the Ulaanbaatar population.

Our biggest milestone of 2021 was offering shares of the Company to the public and gaining more than 9,500 shareholders. Thus, we have the opportunity to provide long-term sustainable returns to thousands of our shareholders.

In 2021, when we offered our shares to the public, we presented our Company's vision and financial plans. Despite having many difficulties including high prevalence of Covid-19, transportation and logistics congestion, and rising prices, we delivered to our investors what we promised with a net sales revenue of MNT 94 billion, exceeding our plan by 6.2 percent and net loss of MNT 18 billion representing an improvement of MNT 2 billion from what we planned.

We believe that the foundation of a successful and sustainable business is determined by the value created for society. Therefore, we strive to create sustainable value for our customers, employees, suppliers, society and investors.

The main goal of the CU store is to save our customers' time. In 2021, the number of recurring customers purchased food and snacks prepared by CU stores exceeded 6 million. According to research, it takes an average of 50 minutes per person to eat in a cafeteria, cafe or restaurant whereas approximately 20 minutes is enough to buy and eat at a CU store. In 2021, we have created a real value of MNT 12 billion for our 6 million customers by saving a total of 3 million man-hours. This MNT 12 billion is the value created only from prepared food and snack services and 45 percent of our customers purchased prepared food and snacks.

We endeavor to make daily routines of our customers simple and easy by offering world-class quality products and convenient services and filling each of our store with smiles characterized by humane communication. To this end, we strive to educate our employees the world's best customer service skills, introduce the best international know-how of customer experience to our society, and bring domestic retail sector to the next level.

In 2021, we have created real value for 1,855 people to work, earn, study and grow by employing 1,855 people with total salary and bonus payment of approximately MNT16 billion and providing training on global service standards and personal development for 2,465 employees.

An important player in our business is our suppliers. During 2021, we purchased goods and services worth of around MNT71 billion from more than 500 domestic suppliers. Considering that the average net profit margin of our suppliers is 10 percent, we have generated a net profit and value of MNT7 billion for more than 500 domestic companies.

We aim to develop our store chain as a prompt and friendly service point as well as a support for daily lives of our communityand social infrastructure. Today, we offer to the public free access to toilets, a shelter in an emergency and a resting point in summer's heat and winter's chill. Moreover, by handling our goods distribution during off-peak hours, we believe that we make a meaningful contribution to our society and the environment by reducing traffic congestion as well as air pollution and high carbon emissions. As of December 2021, approximately 28 thousand people were provided by free public toilet service a day through our 165 CU stores making a significant contribution to improving Ulaanbaatar city's public service infrastructure, reducing environmental pollution, and improving urban comfort.

In the third and fourth quarter of 2021, the economy has recovered fast and opportunity of trade and service businesses have increased which have created significant support for our business. We are optimistic about 2022 as trade and service business environment is becoming more open and favorable. It is worth mentioning that all our employees are working hard every day to meet the expectations of our shareholders.

I would like to express my gratitude to all shareholders of Central Express CVS JSC, the Company which will continue to grow for many years to come and I strongly believe that together we can contribute to the future development of Mongolia.

WELCOME TO CU!

Chinzorig Ganbold

Chief Executive Officer.

1. Company information

1.1. Vision, mission, values

Vision	Mission
To be world renown for our customer service.	**To bring irreplacable value everyday to our customers.**

Our values

Focused: Knows the main goals and focuses on the big picture, prioritizes tasks accordingly, and recognizes important works.

Selfless: Helping our co-workers is the path to our success. Success is achieved with the help of the whole team.

Courageous: Develop yourself by taking bold steps out of your comfort zone. Don't set limits, and don't act in self-defense.

No blame: Does not repeat mistakes, learns from mistakes. When a mistake is made, the process, problem, and cause of the error is discussed openly and criticized..

Open minded: Takes time to listen to others. Listens more, encourages others to express their opinions.

Radically honest: Approaches issues from a professional point of view. Openly debates about what they think is right.

Gritty: Sincerely interested and passionate in their work. Patient, persistent and focuses incremental improvements to achieve results.

1.2. Company introduction

Central Express CVS JSC (the "Company") is a leading company in the Mongolian retail and convenience store market. In 2018 the Company signed a Master franchise agreement with South Korea's BGF Retail Co., Ltd. to introduce CU convenience store chains in Mongolian retail sector and successfully started its operations with 6 stores in Ulaanbaatar. The Company is a joint stock company listed on the Mongolian Stock Exchange ("MSE") and its shares are traded publicly under the symbol "CUMN".

Our convenience stores are located within the reach of our customers and provide necessity goods and services round the clock.

As of the end of 2021, the number of CU convenience stores in Ulaanbaatar reached to 165, yet it is steadily increasing. Premium Distribution LLC, a subsidiary of the Company, ensures continuous supply of goods and services throughout the store chain infrastructure with its integrated distribution system, and food production center operations.

Company name: Central Express CVS Joint Stock Company

Business activities: Grocery stores, food production, trade mediation, franchise business, foreign trade and management consulting services

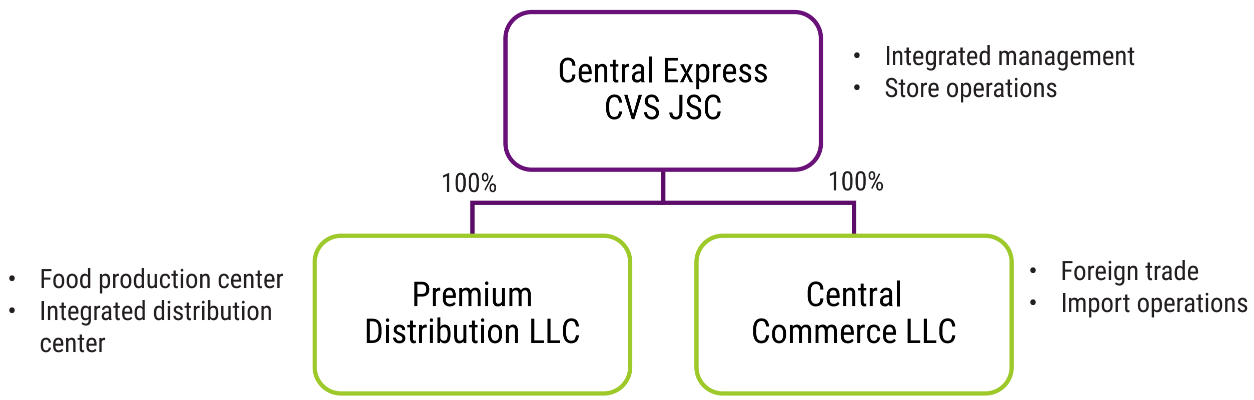
Registered address: 11/F., Dalai Tower, UNESCO Street 31, Sukhbaatar District 1, Ulaanbaatar 14220, Mongolia

Contact:

+976-77330101 info@cumongol.mn, hr@cumongol.mn www.cumongol.mn

Date of establishment:	Number of employees:	Number of stores:
20 February 2017	1,855	165

1.3. Company structure



Central Commerce LLC was established in March 2022.

1.4. Board of Directors and Management Team

Board of Directors

The Board of Directors of the Company (the "Board") is responsible for defining business strategy, main operating direction, and policies, directing executive management, reviewing and controlling performance, and establishing an appropriate internal control system to create long-term value for all stakeholders especially shareholders.

Gankhuyag Adilbish is the Chairman of the Board, and Chairman of the Nomination Committee of the Board. He is the founder and chairman of the Board of Directors of Premium Group LLC and President of the Ulaanbaatar City Chamber of Commerce. He held high positions at Mongolia's most influential companies in the past 20 years such as, First Vice President of MCS Group, CEO of MCS Holding LLC, Chairman of MCS Coca-Cola LLC and Unitel LLC, board member and vice president of finance at Mongolian Mining Corporation (HKEX: 975). He has made a valuable contribution to bring these companies to international levels and has successfully led to large-scale foreign investment in energy, mining, light industry, infrastructure, construction and trade. A.Gankhuyag graduated from the National University of Mongolia (NUM) with a bachelor's degree in finance and economics.

Ganbold Adilbish is a Director of the Board, Chairman of the Remuneration Committee of the Board. He is also the founder, director of the Board of Directors and CEO of Premium Group LLC. He was the CEO of National Development LLC, a Mongolian road construction and urban infrastructure company, and the founder and CEO of Ganbros LLC, a luxury furniture manufacturer. He holds a bachelor's degree in electrical engineering and systems engineering from the Kharkov Institute of Civil Engineering the University of Science and Technology (MUST).

Bat-Erdene Gansukh is a Director of the Board, a member of the Audit Committee of the Board. He is a director of the Board of Directors LLC and Vice President of Finance of Premium Group responsible for ensuring financial stability and risk management system of the group. He started his career as the head of the financial planning department at MCS Coca-Cola LLC, a leader in manufacturing and trade. For the past 18 years, he has worked in the manufacturing, sales, mining, energy, and construction industries, managing the financial operations of the Mongolian Mining Corporation (HKEX: 975) and Premium Group LLC. He was the Deputy Director of MCS Energy LLC and the Vice President of Finance of Mongolian Mining Corporation. G.Bat-Erdene graduated from Khan-Uul University with a bachelor's degree in business administration and applied mathematics.

Company information

Batmunkh Ochirbat is a Director of the Board, a member of the Environmental, Social and Governance Committee of the Board. He is, a director of the Board of Directors and Vice President of Premium Group LLC and CEO of Premium Concrete LLC, responsible for the group's mining, construction, and concrete business. He has over 15 years of experience in business management successfully implementing the New Ulaanbaatar International Airport (NUBIA), Shangri-La Hotel Complex Project, Salkhit (50 MW), Sainshand (55 MW), Tsogttsetsii (50 MW) Wind Power Projects, Oyu Tolgoi Concrete Batching Plant Complex 4 major projects responsible for design, construction and operations. He graduated from the National University of the United States with a bachelor's degree in computer science and a master's degree in business administration.

Bat-Erdene Boldbaatar is a Director of the Board, a member of the Environmental, Social and Governance Committee of the Board. He is also a resident representative of the Polish Development Fund's Investment and Trade Agency in Mongolia and a founder of Horizon Partners LLC and has more than 12 years of experience in international cooperation and trade. He studied in Poland, the United States, and Switzerland, and worked as a market analyst at Mongolia's first foreign (Japanese) investment bank, market and business analyst in Mongolia's first closed-end investment fund (USD 50 million) funded by the International Finance Corporation and the European Bank for Reconstruction and Development, CEO of a Polish-Mongolian joint venture, and founder of investment, strategy and management consulting company that worked on the feasibility study for Asian Development Bank's Private Equity and Venture Capital investment fund development project. B.Bat-Erdene graduated from the University of Finance and Economics (UFE) with a bachelor's degree in accounting.

Chinzorig Ganbold is a Director of the Board and CEO. He is experienced in software, business process, business intelligence, information technology master planning, and engineering. He has worked as head of the policy and planning department of the Infromation, Technology, Post and Telecommunicatoin Agency (ITPTA), IT Consultant for the Economic Poicy Reform and Competitiveness Project at the United States Agency for International Development, Capital Market Development Project, and the Stock Market Information System and Financial Infrastructure for the Asian Development Bank. During his tenure at the ITPTA, he oversaw the implementation of the Digital Governance Program and developed a policy on Mongolia's telecommunications, internet, post, media, and satellite communications, as well as a regulatory policy for the introduction of 4G mobile services in Mongolia. G.Chinzorig holds a bachelor's degree in computer science from MUST and a Master's degree in business administration from the University of Louisville, USA.

Enkhbold Nyamjav is an Independent Non-Executive Director of the Board and a member of the Nomination Committee and Remuneration Committee of the Board. He has worked as CEO of Newcom Group LLC since 2016 and as the chairman of the Board of Directors between 2017 and 2022. He has been active in all of Newcom Group's divisions, including investment, asset management, finance, project development, corporate strategy, business development, and operations, and has also served as chairman of the group's invested companies. N.Enkhbold served as MCS Group's Vice President of Strategy, Business Development, and as a senior executive at other companies in the group for 17 years in a variety of fields, including information technology, communications, finance, and real estate. N.Enkhbold graduated from the Maastricht School of Management in the Netherlands with a master's degree in corporate strategy and business administration, and a bachelor's degree in electronics engineering from the National University of Mongolia.

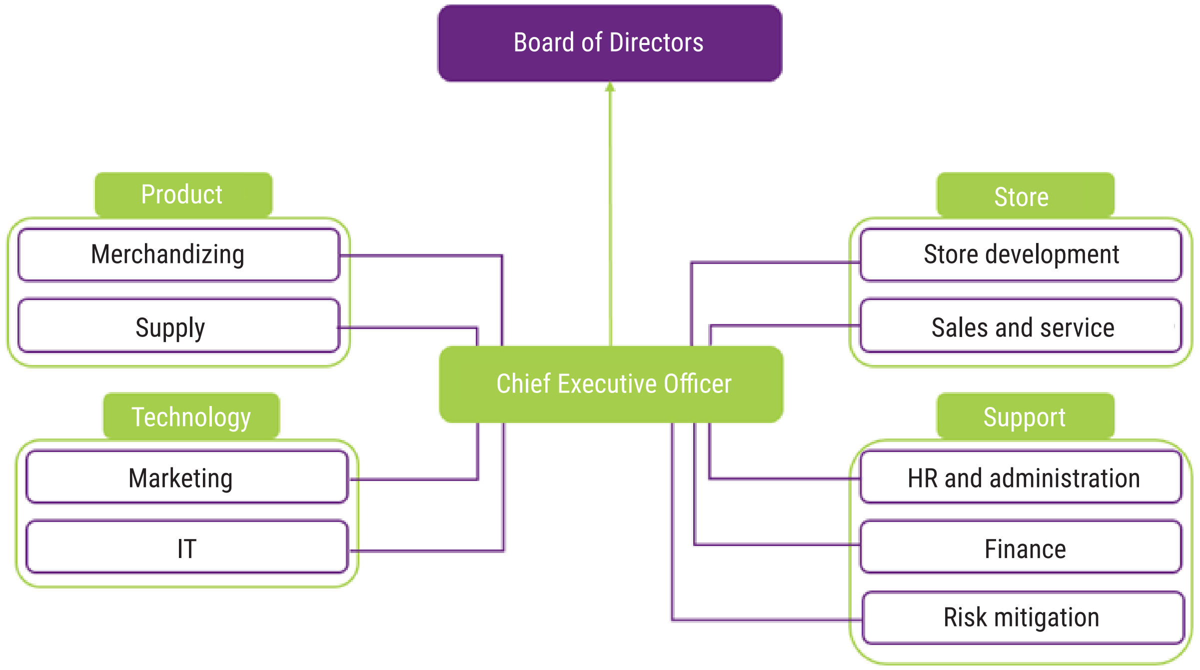
Mergen Chuluun is an Independent Non-Executive Director of the Board, Chairman of the Audit Committee of the Board and member of the Nomination Committee of the Board. He serves as the CEO of Exponential Partners and Togtokh Trade LLC. He is also an investor of Property Lab LLC and a representative of the Founder Institute in Mongolia, one largest accelerator in the world, Senior Consultant of STS Capital International M&A Firm, International Deal Gateway Asia Representative, member of YPO with 30,000 CEOs from 140 countries, and Board member of Entrepreneurship & Innovation Network. Since 2007, he has worked in business expansion, growth management, personal development, technology, and innovation at startups and leading businesses such as Wagner Asia LLC, the Business Council of Mongolia, Webguru, Mongolia's first Internet marketing agency, and the Prime Minister's Economic Policy Council. Ch.Mergen studied information systems, financial management, and entrepreneurship at Colorado State University and attended the President program at Harvard Business School.

Gary Stephen Biondo is an Independent Non-Executive Director of the Board, Chairman of the Environmental, Social and Governance Committee of the Board, member of the Remuneration Committee and Audit Committee of the Board. he serves as the Chairman of Ulaanbaatar International High School, Senior Consultant of Tourist World Tours LLC and CEO of Edelweiss Art Hotel. He worked as Vice Chairman of the Board of the AmCham Mongolia. He has over 30 years of experience in hotel management, specifically focusing on employee training programs, occupational health and safety standards, quality, internal control management, and fire and accident risk management systems. Gary Biondo has worked for 28 years as general manager and executive manager of high-end hotels and resorts in many Asian countries such as Shangri-La International Hotel, and graduated with a bachelor's degree in classical literature and philosophy from Colorado College, Colorado, USA.

Management structure

In terms of management structure, the Company has nine departments, namely Store development, Sales and Services, Supply, Merchandising, Marketing, Information Technology, Finance, Administration and Human Resources, and Risk Mitigation all of which are managed under the direct supervision of the CEO.

Management structure of the Company



Management team introduction

Saraa Chogsom, Director of Merchandising Department of the Company, has 12 years of experience in education, aviation, technology and retail at Erin Systems LLC, the Ministry of Roads and Transportation, the Civil Aviation Authority and the University of the Humanities. She holds a master's degree in commerce from the University of Sydney, Australia.

Tsevelmaa Batmunkh, Director of Procurement Department of the Company, started her career as a Logistics manager at the Mongolian Mining Corporation (HKEX: 975) in Mongolia and worked as Supply project senior manager at Monos Farm Trade LLC, Logistics manager at Premium Group LLC with 14 years of experience in supply and operations. She graduated from the Mongolian University of Science and Technology with a Bachelor's degree in industrial automation engineering.

Batbaatar Ganchimeg, Director of Marketing Department of the Company, has worked in marketing for over 10 years for major Mongolian companies such as MCS Group, Golomt Bank, Wagner Asia and Shangri-La Ulaanbaatar. He graduated from Rockville University in the United States with a degree in Information Technology, specifically Decision Support Systems (DSS), and has worked on a variety of digital platform projects in education, health, online commerce and real estate.

Bilguun Turboli, Director of Information Technology Department of the Company, has worked as a software architect at Mobicom Corporation, a Systems Engineer at Nikkei Telecom 21 in Japan, and a Data Analyst at Rio Tinto Mongolia. He has 12 years of experience in the industry. T.Bilguun graduated from New York University with a Master's degree in data science.

Gerelt-Od Ganzorig, Director of Store Development Department of the Company, has started her career in banking as Trade finance specialist at Chinggis khan bank and worked for 5 years as a corpoare banking manager. She has worked at the Company since 2017 as Business development manager, Category manager, Head of Store planning team with 10 years of total work experience. Gerelt-Od graduated from CCC College in the United States with a degree in Business Administration and Accounting, and from the University of Gloucestershire in the United Kingdom with a Master's degree in Business Administration and Finance.

Nyamsuren Dashjav, Director of Sales and Service Department of the Company, has 18 years of sales experience with Tavan Bogd Group, Narantuul Hotel and Nano International. She has imported more than 40 well-known brands to the Mongolian market. D.Nyamsuren graduated from Staffordshire University in Singapore with a Bachelor's degree in business administration.

Sarangerel Ganzorig, Director of the Administration and Human Resources Department of the Company, had worked as Head of Human Resources at Mongol Content LLC of Mobicom Corporation, Head of Human Resources at Tavan Bogd Foods LLC, and Head of Local Sales at Goyo LLC. She graduated from the Academy of Management with a degree in Business administration.

Dashdorj Soronzonnaigal, CFA, Director of Finance Department of the Company, has over 8 years of academic experience working at the University of Finance and Economics. He has worked as a Financial Advisor to Ministry of Roads, Transportation and Civil Aviation Authority on the New Ulaanbaatar International Airport (NUBIA) Management Concession Agreement with the Japan consortium. He started working as an investment manager at Premium Group in 2019 and has over 10 years of academic and practical experience. S.Dashdorj is a graduate of the National University of Mongolia and the University of Finance and Economics with a master's degree in economic theory and is a CFA charterholder.

Molor Togoltogbayar, Director of Risk Mitigation Department of the Company, has worked as an External Relations Specialist, Business Development Specialist at Tavan Bogd Trade LLC, Head of Quality and Operations at Tavan Bogd Foods Pizza LLC, and General Manager at LLC and Tavan Bogd Hot Pot LLC with over 10 years of experience. She graduated from the Mongolian University of Science and Technology with a Bachelor's degree in tourism management and the Tugeemel University with a Bachelor's degree in translation.

2. Management discussion and analysis

We aim to identify key indicators of our business value and long-term success, measure them realistically, and make effective management decisions based on their performance. Some of these are comparable store sales, total chain sales, and operating cash flow, which are regularly monitored and reviewed by the Company's management team. In other words, they are critical to determining business operations and financial performance.

In addition, long-term growth in operational and financial performance is directly related to average store sales revenue and store expansion, and growth in these measures are the most important for investors in their decisions as management uses these metrics to realistically assess business growth and impact of decisions.

- **A comparable store** is a store that has been in operation for two comparable periods. It is important to measure the business performance by comparing the current year's sales of comparable stores with the sales of the previous period. Sales revenue is driven by foot traffic and the average price of the basket, which is affected by changes in number of customers, their product choices, and price of the products.
- **Systemwide sales** include sales revenue of all chain stores operated by the Company or franchisees. Sales revenue of franchise stores do not directly affect Company revenue, however it is an important metric that reflects performance of store operations and brand value. As franchise store sales revenue is the basis of franchisees' income, it determines the franchisee's financial stability. Change in systemwide sales are driven by average sales of a store and the number of stores.
- **Operating cash flow** is determined by the Company's operating cash income, direct cash costs incurred in generating that income, and net working capital.

2.1. Financial performance

Financial performance for 2021

Central Express CVS JSC has exceeded its 2021 financial plans in performance, reflecting growth of the CU brand, stability of the business and share value.

Last year, we increased the number of CU stores by 63 to reach 165 at the end of the year, as Covid-19 pandemic situation improved and lockdown measures decreased, net revenue increased by 107.4 percent y-o-y to reach MNT 94.0 billion.

Comparable store sales recovered in 2021 with a growth of 39.9 percent y-o-y compared to a 30.4 percent fall in 2020. Compared to 2019, comparable store sales is still down 8.9 percent. One of the reasons for this decline is that compared to 2019, daily average operating hour of store has fallen 30 percent to about 16 hours in 2021.

In line with the Company's mid-term plans, we raised necessary fund for rapid store expansion in November of 2021 in an Initial Public Offering (IPO) which gave significant boost to the short, medium, and long-term performance of the business.

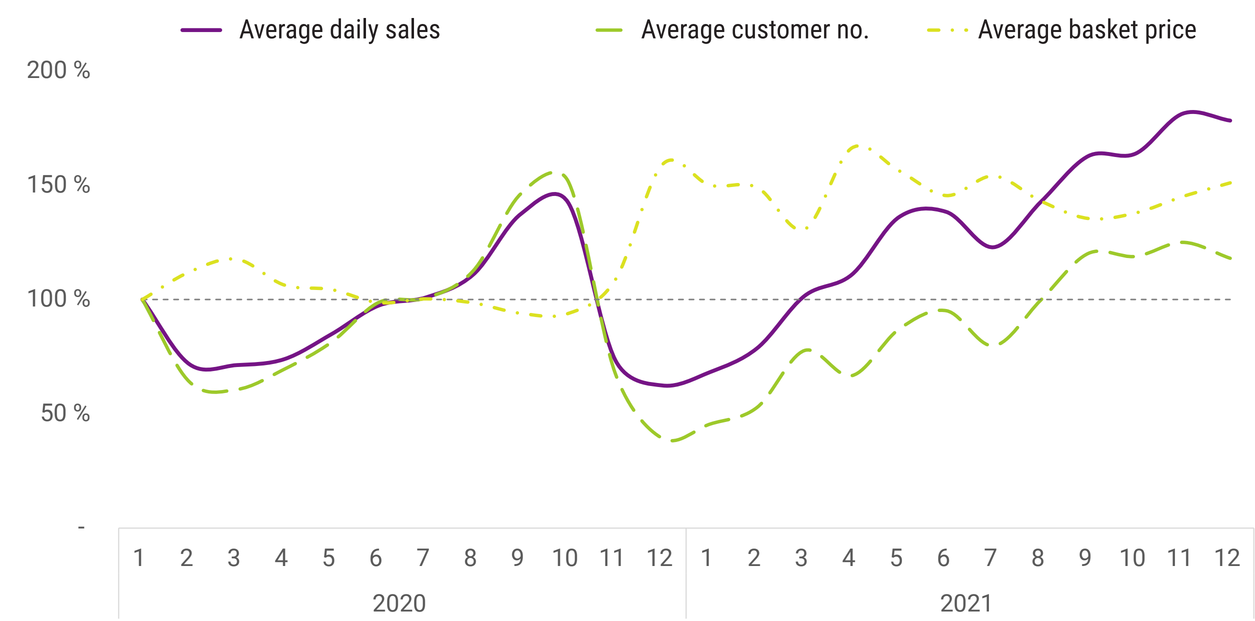
Due to effects caused by the pandemic such as logistical issues from supply chain disruptions and closing of the Chinese border we could not reach the planned number of 185 stores at the end of the year. However, in December 2021, we signed a cooperation agreement with Circle Chain LLC and successfully converted 12 Circle K brand stores to CU chain stores in the first quarter of 2022. As of 31 March, 2022 we reached 197 stores and expansion is continuing as planned.

Logistical problems caused by supply chain disruptions is increasing due to geopolitical issues creating additional risks and problems to operations. Management team is focused on overcoming these near, mid-term challenges and confident that these challenges will not adversely affect the Company's long-term success and profitability. To manage these risks, the Company is taking steps to carefully plan its sales, manage inventory purchases accurately, and increase the amount of reserves required.

Income performance

This section compares year-end results of 2021 with 2020. Performance analysis of prior years in details can be found in Section 2.6 of the Prospectus.

Comparable store sales index



Management discussion and analysis

Income statement, MNT billions

	2021	2020	Ж/ж%
Net revenue	94.0	45.3	**+107 %**
Cost of sales	(100.9)	(50.7)	**-99 %**
Gross profit, loss	(6.9)	(5.4)	**-28 %**
Gross margin	**-7.3 %**	**-11.8 %**	**+38 %**
General, administration, sales costs	(7.9)	(5.1)	**-54 %**
Other income, expense	0.9	(0.0)	**+2894 %**
Operating profit, loss	(13.8)	(10.5)	**-31 %**
Finance income	1.4	0.2	**+797 %**
Finance expense	(5.7)	(5.6)	**-2 %**
Profit, loss before tax	(18.1)	(15.9)	**-13 %**
Tax expenses	(0.0)	0.2	**-106 %**
Profit, loss after tax	(18.1)	(15.7)	**-15 %**
Profit, loss per share (MNT)	**-37.8**	**-91.7**	**+59 %**

Profit, loss before tax and Profit, loss per share

In 2021 with 127 average stores (number of stores mid-year), loss before tax increased by 15 percent to MNT 18.1 billion compared to the previous year beating Prospectus plans by 10 percent. In 2020 with 80 average stores, loss was MNT 15.9 billion. In other words, although number of stores increased 1.5 times, loss before tax increased by only 1.15 times, showing store-level performance improvements in 2021.

The financial results of 2020 and 2021 included several unusual effects such as lockdowns and operating hour reductions caused by Covid-19, which resulted in a decrease of foot traffic and daily average sales. In 2021, number of shares increased resulting in a 58.8 percent decrease of loss per share to MNT 37.8.

Sales revenue

The company's sales revenue consists of revenue from sale of goods and franchise service revenue. Service revenue includes royalty income as a percentage of sales, management service income, equipment rental income, and initial fee from granting franchise rights.

Despite lockdowns, operating hour restrictions, and logistical issues with significant negative impact on sales in 2021, number of stores increased by 60 percent, and net sales revenue increased by 107 percent.

Comparable store average sales growth/decline, %

	2021	2020
Own stores	**+35%**	**-27%**
Franchise stores	**+40%**	**N/A**

In 2021, average sales of comparable stores increased by 35 percent for own stores, and by 40 percent for franchise stores.

Cost of sales, Gross profit, loss

In 2021 with 127 average stores, gross loss increased by 27.7 percent to MNT 6.9 billion compared to MNT 5.4 billion in 2020. On a per-store basis performance is improving as business expands.

In-line with convenience store business model, number of stores and sales volume increase leads to efficiency benefits from economy of scale further closing in on profitability. We can see this effect in the continuous improvement in gross margin from -15.7% in 2019 to -11.8% in 2020, and -7.3% in 2021. Upon further inspection at the store level, sales of comparable stores opened in 2020 improved significantly in 2021.

Rapid expansion of the company and sales growth result in economies of scale affecting 1) decrease in cost of goods sold, 2) decrease in fixed cost as percentage of sales. Cost of sales include not only cost of goods sold but other store operating costs as well. In 2021 a total of MNT 6 billion of depreciation and amortization cost is included in cost of sales.

General, administration and sales costs

In 2021, general, administration and sales costs increased by 54.4 percent which is 2 times lower than sales growth. Company structure formed in the past 3 years and expected to be stable in the future. In other words, general, administration and sales costs that are not directly related to store expansion is expected to be stable. In 2021, there were unusual expenses related to the Initial Public Offering amounting to MNT 0.8 billion. This included related marketing expenses and professional services fees.

General, administration and sales costs as percentage of Systemwide sales decreased from 10.0 percent in 2020 to 7.2 percent in 2021. As general, administrative, and sales costs are incurred to support the full scope of the business, it is appropriate to compare it to Systemwide sales.

Net financial costs

Financial costs consist of loan interest expense and financial lease interest expense. Under International Financial Reporting Standards (IFRS), rent expense is recorded as interest expense on finance leases and depreciation expense on right of use assets. In other words, finance costs increase with increase in number of stores, while costs decrease when number of franchised stores increase. In 2021, loan interest expense decreased due to financial restructuring resulting in a decrease of long-term debt.

Cash flow statement, MNT billions

	2021	2020
Operating cash flow before working capital changes	(1.3)	(5.0)
Working capital cash flow*	2.7	(3.0)
Finance and income tax cash flow	(5.2)	(5.1)
Net operating cash flow*	**(3.8)**	**(13.2)**
Net investment cash flow*	**(13.7)**	**(7.6)**
Net financing cash flow*	**32.1**	**26.2**
Net cash flow	**14.7**	**5.5**
Cash and cash equivalent beginning balance	6.1	0.7
Cash and cash equivalent ending balance*	**20.8**	**6.1**

*Adjusted for related party payables, and investment in short-term securities.

Cash flow

The business model of a convenience chain store business relies on operational cash flow from the scale of high number of stores and as profitability improves in the future operating cash flow increases to a point where investments can be financed sustainably from these cash flows. Moreover, debt payments, dividends, share repurchases can also be financed from operations in the future.

In 2020 and 2021 due to hard lockdowns and national emergency daily average sales dropped dramatically, resulting in significant negative pressure on operating cash flows. However, changes in net current assets or working capital had a positive impact.

In 2021, a total of MNT 4.2 billion was used for operations compared to MNT 13.2 billion in 2020 which is an improvement of MNT 7.0 billion. MNT 16.2 billion of related party payables of Premium Group LLC which have been converted to equity in 2021 has been adjusted to be considered as financing cash flow in 2020.

A total of MNT 13.7 billion was spent on investment which is an 80 percent growth compared to the previous year. An adjustment of MNT 16.7 billion was made for investment cash flow in 2021 as it is related to investment in short-term marketable securities and short-term loan. Due to the Chinese border closure caused by the pandemic which hindered expansion and reduced store investments the Company invested in short-term marketable securities to earn interest income.

In 2021, MNT 32.1 billion of net financing was attracted, of which MNT 29.6 billion was raised by issuing additional shares and MNT 5.2 billion from additional borrowing. The difference of MNT 2.7 billion outflow is due to payment of existing loans and financial lease liability. Adjusted cash and cash equivalents in 2021 and 2020 were MNT 20.8 billion and MNT 6.1 billion, respectively.

Statement of financial balance, MNT billion

	2021	2020	YoY%
Noncurrent asset	74.7	40.6	**+84%**
Current asset	41.3	16.3	**+153%**
Total asset	**116.0**	**56.9**	**+104%**
Long-term liability	41.4	30.1	**+38%**
Short-term liability	30.5	43.2	**-29%**
Total liability	**72.0**	**73.3**	**-2%**
Total equity	**44.0**	**-16.4**	**+369%**

Balance statement

Non-current Assets

The majority of the company's assets consist of fixed assets and right of use assets. We own 100% of our food processing center and cold-chain distribution center assets through our wholly-owned subsidiary while our stores, ambient temperature distribution center and office space is leased. As of December 31, 2021, the Company has 165 stores, 1 food processing center, 1 cold-chain distribution center and 1 ambient temperature distribution center in its operations. We consider the existing locations to be in good condition to meet operating standards and quality requirements. The Company owns all types of fixed assets such as rental improvements, furtniture, shelves, counters, IT equipment and systems, eletrical appliances such as refridgerators, freezer, and food preparation equipment. Non-current assets did not reach projected levels mainly due to slowdown in store expansion.

Current assets

Majority of working capital is inventory, short-term investments and cash equivalents. Inventories increased by 110 percent to MNT 14.1 billion directly related to increase in number of stores and sales. Inventory also includes supplies, construction materials, and equipment related to store expansions in addition to merchandize. Inventory is 27 percent higher than plans in part due to increased merchandize reseves to reduce supply disruption risks caused by logistical issues.

Moreover, as store expansions slowed due to logistical disruptions, the Company implemented treasury management to earned interest income by investing in bonds with short-term repurchase (repo) agreements. As a result, MNT 14.9 billion was accounted for in investment in short-term marketable securities, and MNT 2 billion in short-term notes.

Liability

Long-term liabilities include long-term loans and long-term financial lease liabilities. Financial lease liability amount was lower than planned due to slowed expansion. For short-term liabilities, the majority consists of account payables and short-term financial lease liabilities. Account payables were higher than planned due to higher inventory purchases as reserves in order to manage supply disruption risk.

Equity

In 2021, equity increased by MNT 60.4 billion compared to the previous year stemming from capital investments. The year-end amount exceeded plans due to a) lower than planned loss amount and b) higher than planned proceeds from the IPO.

Ratio analysis

Liquidity ratio

The company has higher current assets than short-term liablity, and quick ratio is at 0.9 indicating that current assets minus inventory can cover 90 percent of short-term liabilities showing high liquidity. Quick ratio is less than 1 due to increased inventory reserves. In 2020, quick ratio was 0.2, which was due to the high level of short-term payables to Premium Group LLC which was converted to equity in 2021.

Solvency ratio

Debt ratio improved from 1.3 in 2020 to 0.6 in 2021 due to an increase in equity and decrease of debt in the company's financing structure.

In 2021, the Company converted MNT 19.8 billion of payables (from previous parent company) and MNT 16.2 billion in long-term loans to a total of MNT 36.0 billion in equity. Moreover, the Company issued additional shares to the public in an IPO, increasing equity by MNT 27.6 billion and improving solvency.

Operating ratio

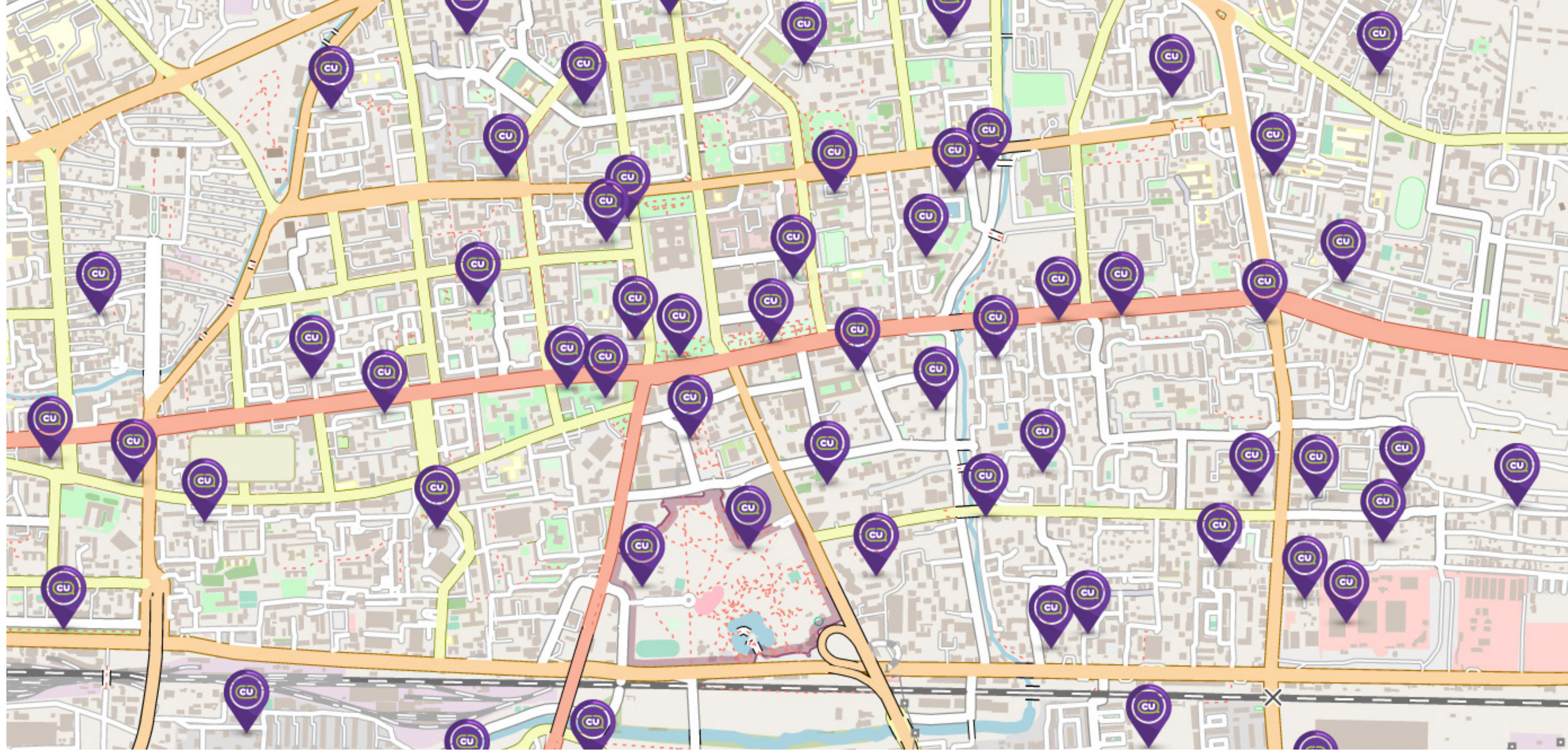
The cash cycle has improved by 10 days from -29 days in 2020 to -39 days in 2021. This was mainly due to an increase in payable days due to increase in inventories in the fourth quarter.

Agreements with conflicts of interest

In 2021, the Company acquired Premium Distribution LLC, a wholly owned subsidiary of Premium Group LLC, at a par value of MNT 7.7 billion. The decision was made with an unanimous votes of the shareholders. Other conflict of interest transactions are stated in the table below.

Conflicts of interest transactions, MNT billion

	Shareholders	Entities under common control	Other related party
Purchase of goods	2.8	-	1.5
Sale of fixed assets	-	2.0	-
Interest expense	1.2	-	-
Sales of finished goods	-	0.06	-
Purchase of PPE	-	1.0	0.7
Interest income	-	0.02	-



2.2. Strategic direction and performance

We aim to provide a convenient environment with all necessary products and services in one place, with fast service, in close proximity to the evolving lifestyle of our customers.

We aim to bring simpler, smarter products and services to the market, open new locations and be as close as we can to our customers. The Company is focusing on the following 5 main strategies in the midterm to reach its goals.

Market dominance strategy

By opening CU stores in places where our customers spend most of their time, we can bring our customers closer, saving their time, money, and energy, making valuable contributions to the development of our society by freeing up time and resources.

Therefore, we are pursuing the strategy of increasing number of stores faster and dominating the market to create more efficient distribution network, improved branding and benefit from economies of scale to improve profitability and lead the retail market.

Within this strategy, we increased number of stores to 165 in 2021 and opened 32 more stores in the 1st quarter of 2022 in densely populated areas of the city center and suburbs. As a result, the total number of our stores has reached 197 in March 31st, 2022.

Over the past four years, we surveyed all types of densely populated areas and identified locations where convenience stores are most likely to be needed. Therefore, by the end of 2023, we are aiming to reach a total of 360 CU stores.

Vertical integration strategy

CU convenience chain consists of high number of standardized stores in the nearest location to the customers. Aggregation of high number of stores create purchasing power, business development opportunities but create challenges in standardization of quality service. Therefore, infrastructure capable of supplying a high number of stores is essential for the business.

Infrastructures such as a) Food development, production center, b) Integrated storage, distribution, logistics center, and c) Integrated IT and communication systems that are able to provide 200, 300, 400 stores is the basis of Central Express CVS's long-term sustainability.

Distribution infrastructure. We aim to provide our customers with their daily necessities, specifically food products continuously which requires ambient and chilled storage and distribution infrastructure. Supplying a high number of stores with centralized management gives many benefits such as midnight distribution and daily deliveries in small batches compared to traditional grocery stores. Increasing number of stores increases value and returns of investments made in infrastructure. We are continuing to invest in distribution infrastructure from IPO proceeds creating an infrastructure capable of supplying 400 stores daily working continuously in 2 shifts.

In 2021, we have successfully started warehouse management system update, semiautomatic order picking system establishment and cold-chain distribution center expansion projects which will upon completion result in 2 times faster order preparation.

Food production center. We commissioned the 4,000 sq.m food production center that meets high quality, hygiene and safety requirements in 2020 and daily average production output tripled in 2021. In 2022, along with rapid expansion of CU convenience stores, food production output is projected to increase more, and further reach capability of supplying 400 stores.

Comprehensive information system. With the objective of improving daily convenience store business operations such as purchase, distribution, marketing and sales, the Company started the project to integrate a new retail information system with international know-how with existing IT infrastructure scheduled to be fully integrated in 2022.

Product differentiation strategy

The Convenience store stands out from the competition in the marketplace by continuously introducing innovative products and value-added services that are needed on consumers' daily basis and by becoming a public service center in the area.

The CU Convenience Store is constantly updating its product line to make it distinctive, innovative and trendy. For example,

Name branding. Brands such as GET, CU Eats, and HEYROO are branded products sold exclusively by CU Convenience stores and play an important role in creating a loyal customer base. This type of products have high marginal profit and sales, so further development of branded products is needed. In 2021 we increased number of brand name products by 45 percent which resulted in a 114 percent increase in sales of name brand products.

Exclusive products. We offer brand-name products such as CU Ice-cream, iBerry fruit juice, Freshbox Sandwich that developed in collaboration with local manufacturers. It supports local manufacturers, introduces their products to the public, and gives consumers a whole new feel and value that incorporates the features and advantages of the CU brand. In 2021 we increased exclusive products by 38 percent resulting in a sales increase of 108 percent.

Import products. CU convenience store offers globally trending products which are not introduced in Mongolian market. In 2021 we imported over 500 types of products from 6 countries in Asia, Europe, and the Americas. We had a 102 percent increase in number of products and 117 percent in sales for these types of products. Increasing the range of imported products and improving the novelty of products increase our competitive advantage.

Trendy products. It is very important for us to launch and introduce new products that are entering the market and can be sold in large quantities. In recent years, CU convenience stores have introduced more than 14,000 new products. Last year, a total of 3,633 new products were introduced. We plan to launch new trending products to the convenience store market every week to attract customers.

Service center. As convenience stores expand and grow closer to customers and develop their distrinctive operating features evolve and change. From a convenience store, you can not only buy goods and meet your urgent needs, but also get mobile SIM cards, buy mobile units, make payments, get printing and copying services, send and receive mail, government services, provide tourist information, and much more. CU convenience store is working on introducing all these services in its stores and create more value for our customers. In 2021, CU convenience stores introduced mobile SIM card offerings and Stora boxes for online shop deliveries. We also increased number of ATMs by 44 percent and reached 165 stores, increasing the number of available public bathrooms in Ulaanbaatar city.

Loyalty strategy

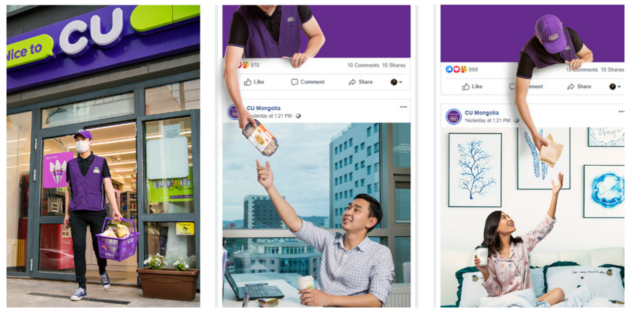
Our loyal customers who choose to shop at CU convenience store every day are very important to us. We strive to offer the best value to these customers by implementing different types of loyalty programs such as a loyalty points system, coupons for various tasks, member only discounts and repeat purchase programs.

Friendly service. CU convenience store's "Welcome to CU" greetings culture is already recognized by customers and brought Ulaanbaatar service culture to a higher level. The company implements the Quality, Service, Cleanliness (QSC) standard system for store evaluation, and quality control to maintain and increase quality of everyday service. Employees of CU stores are skillful, proactive and customer centric which plays a key role for high service standards and increasing brand value. We aim to be the closest store to our customers' heart by maintaining service standards through consistent training, development, and career growth for our employees. Maintaining high quality standards equally in all our stores require stable employment and low turnover. In 2021, we improved our employee selection process and introduced a Merit-based Incentive Payment System (MIPS) that offers limitless wages based on store performance reducing employee turnover by 21.8 percent, with increased employee satisfaction. In 2021, a total of 3,209 staff were enrolled in training of service, quality standards, communication, and management skills, and we introduced an internal digital training system creating 40 new training content.

Loyalty rewards. In 2021, sales through loyalty program increased by 32 percent compared to 2020. We aim to offer products and services that meet the needs of our customer and increase customer satisfaction by identifying their needs.

Technological advancements

Omnichannel. CU chain store has developed an online delivery service alongside its expansion in order to be closer to our customers and provide more satisfying services. We make 30-minute deliveries through this which became an innovative and highly demanded service increasing 7.9 times in volume in 2021.



Fintech. Within the scope of our goal to be inclusive to every customer we accept all types of payment solutions in our stores making payments more convenient.

In addition to bank card transactions, we have fully connected to widely used digital wallet services such as SocialPay, QPay, Monpay, MongolChat, HiPay and Toki. In 2021, 339,664 transactions were made through digital wallets.

Developing more fintech solutions, increasing service speed, and ensuring payment security has the potential to reduce cash related costs in the future. Moreover, developing CU application as a digital wallet will provide payment, transfer, and loan services in the future.

In-store tech. All branches of the CU convenience store have an integrated video surveillance system, a cloud-based music playback and notification systems, integrated cloud-controlled digital screens in-store to provide customers with information about new products, discounts and other highlights. With these solutions, CU store is able to provide integrated information to its customers every day.

2.3. Competitive environment

Mongolian trade and consumer industry

The trade industry is directly related to population growth and household purchasing power. The industry showed a compound annual growth rate of 16.0 percent from 2016 to 2021. In the retail sector, sales increased by only 2.1 percent in 2020 due to the Covid-19 pandemic, and increased by 24.2 percent in 2021 as pandemic effects reduced.

According to the Ministry of Food, Agriculture and Light Industry, as of June 2020, there were a total of 15,763 retailers operating in Mongolia, of which 44 percent were in Ulaanbaatar and 56.2 percent in rural areas. In the retail sector, 63 percent are grocery stores, 14 percent are kiosks, 10 percent are specialty stores, and 1 percent are convenience stores.

In Ulaanbaatar there are 33 hypermarkets with an area of more than 2,000 m2 in the large retail sector, such as E-mart, Nomin, and Minii Delguur, and 142 supermarkets with an area of 501-2,000 m2, such as Nomin, Sansar, and Orgil in the medium category. There are 6,611 trade channels in Ulaanbaatar with an area of less than 500 m2, of which 3,638 are grocery stores and 1,669 are kiosks.

Retail market participants are divided into three categories: traditional, modern, and online.

Traditional market

In the traditional market, the seller makes purchases and payments directly from the store counter to the customer. Mongolian traditional trade markets include outdoor open markets, kiosks and traditional grocery stores.

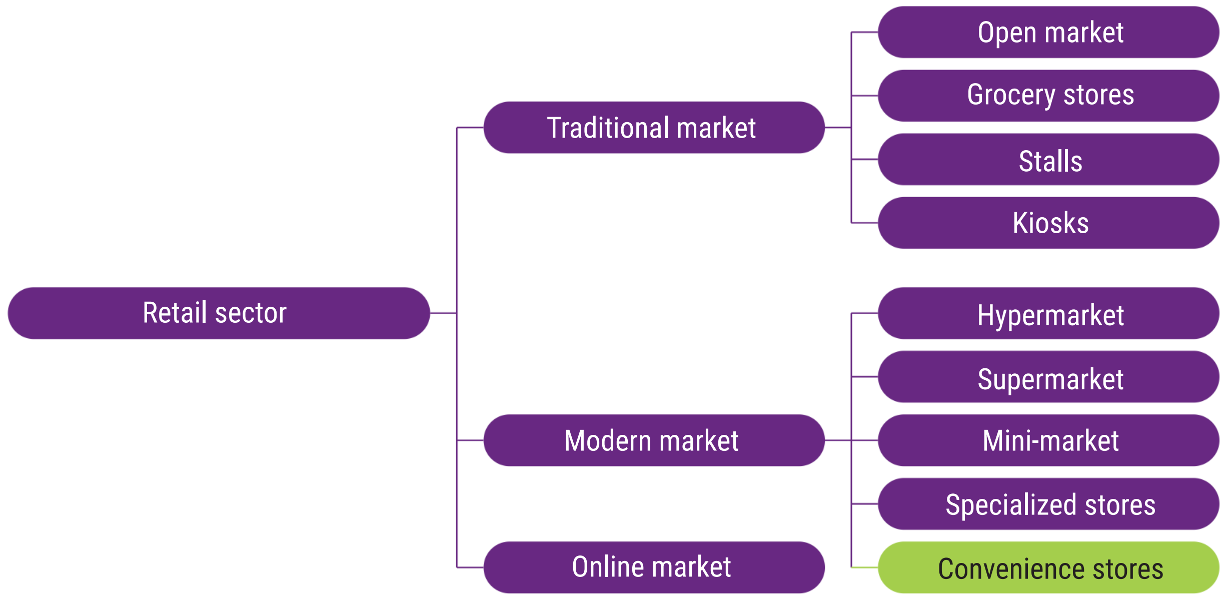
Modern market

In the modern market, consumers serve themselves, choose their products, put them in carts and baskets, and go to the cashier to make payments. Modern markets in Mongolia includes hypermarkets, supermarkets, mini-markets, convenience stores and specialty stores.

Online market

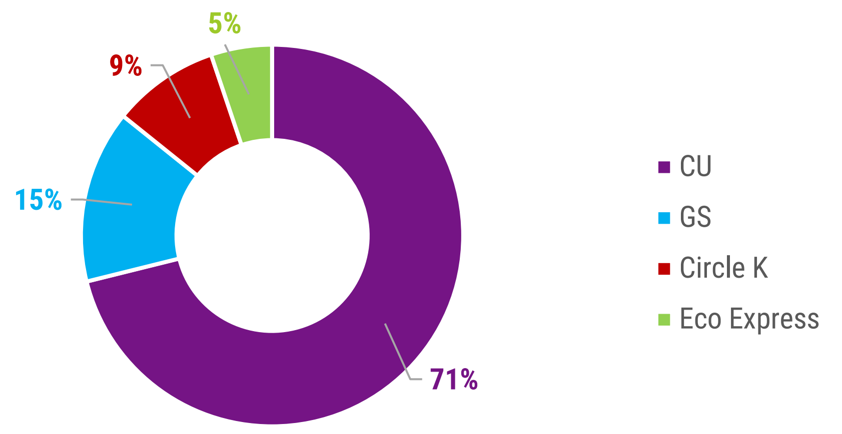
In the online market, it is possible to make payments and receive delivery services through an online platform. The Mongolian online market is developing through various websites, applications and social platforms.

Retail sector structure



Эх сурвалж: www.ub-speeda.com

Convenience store market participants



Source: Company research

Mongolian convenience store market

Central Express established the first convention store in Mongolia in 2017. Today, the convenience store is one the fastest growing sectors in the retail industry.

Looking back at the early development stages of the South Korean and Japanese markets, many convenience store brands entered the market in a short period of time and competed fiercely to gain a foothold in the market. The same pattern is likely to be repeated in the Mongolian convenience store market.

As of the end of 2021, there are 232 convenience stores of 4 brands operating in Ulaanbaatar. Central Express CVS leads the market with 165 stores, GS25 with 34 stores, Circle-K with approximately 21 stores and Ecoexpress with 12 stores.

Mongolian food and catering industry

A significant percent of the company's sales derive from food sales, and its wholly-owned subsidiary Premium Distribution LLC operates in the food and catering industry.

According to the Ministry of Food, Agriculture and Light Industry, as of 2020, there are more than 8,500 food and service enterprises in Mongolia, 47 percent of which are located in rural areas and 53 percent in Ulaanbaatar.

There are 2,369 canteens, 1,570 restaurants, 1,331 bars, 400 cafes, 85 fast food restaurants, 544 hospital cafeteria, 1,600 school canteen and 283 dormitory kitchens with a total of 8,467 restaurants.

Nationwide, revenue from the food industry increased by a compound annual growth rate of 21.6 percent between 2016-2021. Sector revenue declined by 7 percent in 2020 and increased by 46.7 percent in 2021.

In Ulaanbaatar, revenue increased by a compound annual growth rate of 20.6 percent between 2016-2021.

As of 2020, in Ulaanbaatar, there are 1,021 restaurants, 945 bars, 1,297 cafeterias, 225 cafes and coffee shops, 2,100 licensed restaurants and cafeterias, more than 950 schools and kindergartens.

2.4. Risk management

As of 31 December 2021, Central Express CVS JSC had 165 stores in Ulaanbaatar and as at 31 March 2022, the number stores reached to 197. The stores serve more than 60,000 customers daily, with about 4,500 SKUs from 400 vendors.

The Company identified key risks related to operations and financial results and outlined plans to manage and mitigate those risks based on the financial information as of 30 June 2021 and published such risks in the IPO Prospectus. At the time, strict curfew related to recurrence of Coved-19 and continued high state of emergency by the Government were high risks to business and financial performance.

In the second half of 2021, gradual reduction of the Covid-19 state of emergency and good public vigilance led to a resurgence of foot traffic in Ulaanbaatar and significant positive impact on convenience store business. However, in the global and regional, economic and business environment, the following consequences of Covid-19 and geopolitical tensions pose new risks and challenges. These include global supply chain failures, consequent rising prices and logistical challenges. This can be easily seen in the high inflation rate, declining exports of key commodities, and transportation costs, which have strong impact on our economy.

We are working on reaching our operations and financial goals stated in the IPO Prospectus, and we summarize the risks included there within the following 5 risks as the most impactful and highly likely to occur in 2022.

Risk of supply disruption.

Due to raw material, transportation or logistics problems some of the 4,500 SKUs sold in the CU chain store are experiencing shortages and fulfillment problems. To overcome this, vendors are constantly looking for new sources and replacing them with similar new products. For example, we are looking for opportunities such as replacing imported products from China with products from Turkey. There is a growing need for us to work with our vendors to identify new alternative products and introduce them to customers.

Risk of slower expansion due to logistics issues.

Disruption of equipment and construction materials needed to build stores is one of the main risks of slowing down store expansion. To prevent this, we continue to take steps by creating reserves for planned investment expenditures. This gives us the opportunity to overcome multiple risks such as supplier price increase, supply chain disruptions, and exchange rate appreciation.

Foreign exchange rate appreciation and inflation risk.

Goods price continue to rise due to appreciation of exchange rate and rising costs. As the company is not a producer of goods, its ability to keep prices stable is limited.

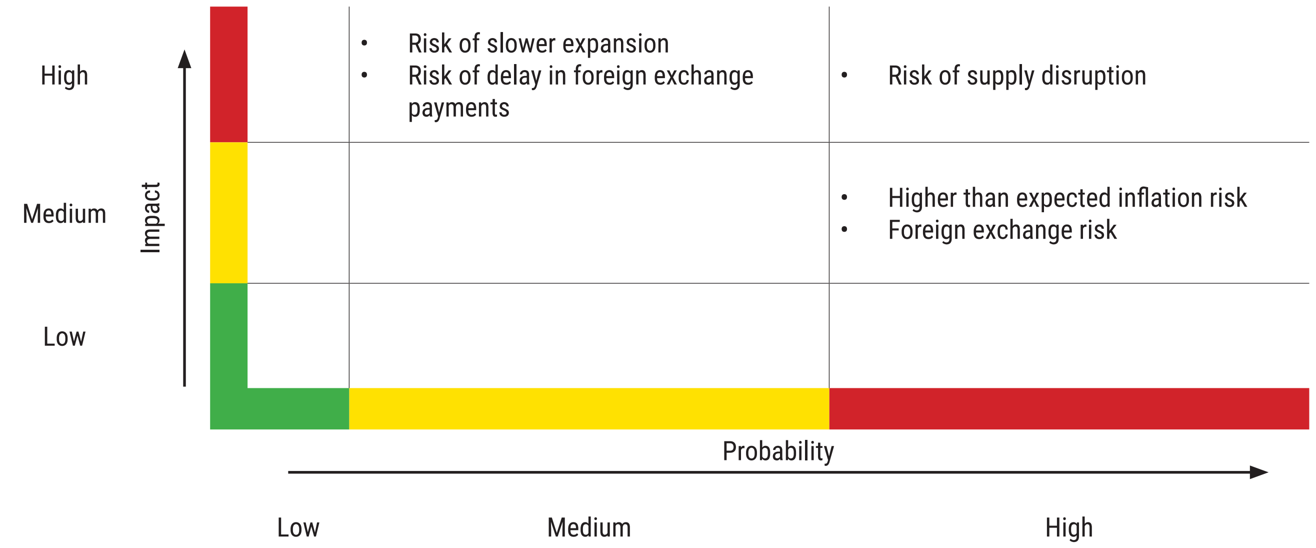
Purchasing choices continue to change as real income of customers decline due to rising prices. However, because the company sells daily consumer goods, risk is relatively low compared to other price-sensitive products. The company needs to work with vendors to continuously explore other low-cost options.

The increase in foreign exchange rates is expected to increase cost of store construction and equipment. Therefore, we need to create equipment reserves, and increase foreign exchange reserves necessary for future payments.

Risk of delays in foreign exchange payments.

From the end of 2021, Mongolia's export output has started declining creating expectations for US dollar reserves to fall. At the same time, demand for US dollar increased in the domestic market, resulting in a rapid decline of USD reserves reducing availability. This creates multiple risks for our country, which is highly dependent on imported goods, such as not being able to make payments on time, as well as delaying repayment of foreign currency loans. There is a growing need for the company to work with foreign and domestic banks and financial institutions to accurately identify its foreign exchange demand and ensure that the required reserves are not disrupted.

Risk matrix



3. Sustainable development

As a pioneer in the industry, Central Express CVS JSC had a baseline environmental, social and governance (ESG) assessment for all stages of its operations, including chain stores, integrated distribution centers and the food production facility.

The report considered 182 indicators set forth in the International Finance Corporation's Environmental and Social Performance Standards, Conventions, Declarations and relevant laws, standards and regulations of Mongolia of which Central Express CVS JSC fully met 174 criteria and achieved a 95.6 percent score.

The company initiated and implemented many projects and programs as part of social responsibility such as, the Child Protection "CU Will Help You" project in cooperation with the Domestic Violence and Child Crime Prevention Department of the Capital City Police, decorating of the waiting room at the PN Shastin Third Central State Hospital's Neurology and Cardiac Surgery Department, and the Mongol Ger Project in partnership with the United Nations Children's Fund.

3.1. Environment

Energy consumption

Electricity consumption is measured by a certified meter and paid monthly according to Energy Law. Instructions on how to monitor the integrity of the meter, how to turn it on and off are placed next to the meters. In order to reduce energy consumption, we purchase low-energy refrigerators and freezers, and take various measures such as installing LED light bulbs in stores, warehouses and at food production facility.

According to a study by the US Department of Energy, the use of LED lights is 72-80 percent more energy efficient than the use of incandescent bulbs. Efforts to reduce energy consumption have resulted in savings of at least 12,000 kWh per year. This positive impact is expected to grow as the number of stores increases.

Waste management

"Ungu Nem" (Add color) waste management program

Premium Distribution LLC conducted a baseline study on the amount and structure of food waste, and a behavioral survey of employees' perceptions of waste and whether there is individual contribution to its reduction in partnership with "Ungu Nem" NGO. Based on this research, a food production waste management plan was developed and the following trainings were provided to the staff.

- Improving understanding of waste
- Culture of waste sorting and proper waste disposal
- About waste recycling plant

In addition, temporary waste disposal site is placed at all stores creating opportunity for waste to be sorted at source. Moreover, battery waste collection initiative was supported and implemented.

Environmentally friendly packaging

The CU brand emphasizes environmentally friendly low-waste packaging in its operations. The CU brand has introduced its own recycled GET coffee cup to the market making it an eco-friendly solution. In addition, our customers appreciate that they can bring their own cups and get discounts, which is beneficial for both customers and the environment.

"Ornamental Tree Grove" green area

On October 28, 2021, within the framework of the 100th anniversary of the trade and service sector and the 90th anniversary of the food industry and service sector, 156 trade and service organizations operating in the district joined together in support of the "Healthy-Eco District" goal of the Khan-Uul district governor's plan for 2021-2024. A total of 458 trees were planted in the "Four Seasons Park" in the 21st khoroo creaintg "Ornamental tree grove" green area.

3.2. Social

Increasing social safety and security

Having created a safe and clean environment, CU stores are open 24 hours a day increasing night lighting, and creating 24-hour security and video surveillance have positive effects on crime prevention.

In May 2021, in order to prevent children from getting lost and becoming victim of crimes we initiated the "CU Will Help You" child protection project. To promote the project to young children, we published an interesting coloring comic book with tips on how to prevent children from getting lost, distributed it to children for free. The comic includes content about staying near their parents, if lost not to panic and head to the nearest CU where they will be welcomed at a safe place and help children reunie with their parents.

"Mongol Ger" Project

The company has signed a formal memorandum of understanding with UNICEF in partnership with BGF Retail of South Korea to implement the Mongolian Ger Insulation Project, an environmentally friendly and decreasing heat loss project in Mongolia.

The aim of the project is to reduce the incidence of air pollution-related diseases among children, women (pregnant women) and vulnerable groups, to create comfortable and warm living conditions, to improve the quality of environment and to reduce household waste, and the project includes support for the installation of electric heaters to families living in gers. An environmentally friendly, low-heat loss ger has an electric heating system that has little effect on air pollution and has about 25 percent less heat loss compared to a normal ger. The ger has significant impact on reducing energy consumption and has low risk of fire.

Human resource

1,000 jobs program

The CU brand has introduced the concept of part-time work in Mongolia, and today more than 65 percent of the total workforce is students. Part-time work provides students with multiple advantages such as the ability to work in close proximity according to a flexible schedule and gain regular income alongside their studies. It also provides equal employment opportunities for all, providing jobs for people with disabilities. Four percent of our total workforce consists of special needs staff. In November and December 2021, we created 1,000 new jobs.

Workplace support for PWDs

We aim to create an inclusive workplace, with at least 4 percent of all employees consisting of PWD in accordance to the Labor Law. As of 2021, Central Express CVS JSC and Premium Distribution LLC has a combined number of employees with disabilities of 73 or 4 percent of the total number of employees. People with disabilities work part-time under the Labor Law, and we actively work with specialized associations to make job advertisements more accessible and inclusive.

Employees with disabilities working for the company have a 50-100 percent disability. Most of them lost up to 100 percent of their hearing, vision, and speech, and up to 79 percent lost their ability to work due to orphan brain tumors, nerve injuries, elbow soft tissue injuries, spinal cord injuries, hip dislocations, or secondary meningitis. Employment of people with disabilities not only increases their income, but also gives them equal opportunities to participate in society, develop themselves, and start a career. On the other hand, other staff understand, respect, treat and support people with disabilities. We believe this has significant positive impact on society.

Training and development

The company pays great attention to maintaining high standards for its services. Due to high turnover of employees specific to the retail industry, new employees are trained to introduce and understand the culture of the company, to develop service culture, to practice good hygiene, and to provide work skills and knowledge. After the training, a knowledge test is completed, where non-passing employees are retrained.

We also provide trainings for employees on the 7 basic company principles and values, personal development training, leadership training, service culture training, training on usage of the internal IT system, financial management training, quality and hygiene training, and workplace skills training, and many others.

We also provide training for franchisees on human resources management, IT systems, and warehouse management to maintain quality of franchised stores' operations and services in line with the company's unified standards and design. In response to the outbreak and quarantine of Covid-19, online training content was developed and posted on the company's internal platform, and training materials were prepared in a clear and interesting manner. In 2021, a total of 186,000 hours of training was provided to employees of Central Express CVS JSC and Premium Distribution LLC.

Occupational safety and health management

The company is constantly improving its operations by creating the right OSH attitude and culture, and focuses on being an exemplary service organization in the industry. Central Express CVS JSC and Premium Distribution LLC strictly follow rules, instructions and guidelines related to occupational safety and health. In 2021, a total of 1.68 million man-hours had no accidents in the workplace.

The Occupational Safety and Health Department provides regular training and information to employees.

Covid-19 pandemic control measures

In order to prevent coronavirus infection and support the health and immunity of employees, employees were provided with vitamins, hearty foods, masks, gloves and disinfectants. In addition, we added insulations in front of the cash registers at all stores to ensure the safety of both customers and employees.

In all stores, food production facilities and distribution centers, disinfection and pest control services were regularly conducted by licensed professional organizations, and all employees were enrolled in the 1st, 2nd shots of vaccinations and strongly encouraged to participate in 3rd shot of vaccination.

Sustainable procurement

Central Express CVS JSC's procurement performance was assessed in accordance with IFC's Performance Standard #3, and Mongolian Stock Exchange ESG regarding efficiency, and waste prevention. The company has a policy to support local suppliers. The Procurement Procedures, approved in September 2018, set out four key principles to follow when making a purchase. These include:

- **Ethical Principles:** Strictly follow Mongolian laws and regulations. Avoid any conflicts of interest and work honestly.
- **Economic principles:** The economic benefits of goods and services, such as price, quality, supplier reliability, and efficient delivery, are taken into account.
- **Principle of fairness and transparency:** All suppliers of goods and services will be able to compete in an open, fair, transparent and equitable manner.
- **Principle of social responsibility:** To support the development of the nation, to choose environmentally friendly, non-harmful, energy efficient and recyclable goods and services.

4. Corporate Governance Report

The governance structure of Central Express CVS JSC (the "Company") is to determine main activities, policies and strategies, manage internal control and risk and direct and oversees executive management in accordance with the relevant laws and regulations of Mongolia.

The Company complies with the Corporate Governance Code approved by the Financial Regulatory Commission and internationally recognized best practices and principles. The Company is of the opinion that the development and implementation of best practice corporate governance plays an important role in implementing business strategies, protecting interests of shareholders and other stakeholders and ensuring business ethics, transparency, and fairness.

4.1. Shareholders

Central Express CVS JSC received its official approval to become a public company on 13 October 2021 from the Financial Regulatory Commission and offered its shares to the public on 3 November 2021 as Tier III on the Mongolian Stock Exchange. The Company went public by successfully completing its initial public offering and opening its secondary market trading on 12 November 2021. As of March 2022, the total number of common shares issued by the Company is 817,768,643 and the total number of shareholders is 9,506. The following table shows the information of substantial shareholders of the Company.

Large shareholders

Shareholder	Number of common shares	Ownership percentage
Gankhuyag.A	238,117,485	29.1%
Ganbold.A	172,327,784	21.1%
Bayarjargal.Ts	88,164,258	10.8%
BGF Retail	67,980,767	8.3%

In fiscal year 2021, there were no shareholders who exercised their right to sell their shares in accordance with the Company Law of Mongolia.

Shareholders' rights

The main form of exercising the shareholders' rights in the Company is shareholders meeting, which discusses and resolves issues within the authority of the shareholders meeting in accordance with the relevant provisions of the Company Law and Charter of the Company.

The Board of Directors of the Company (the "Board") has approved the shareholders meeting procedure. This procedure aims to regulate issues related to calling the shareholders meeting, providing information about the meeting, convening the meeting, proposing issues to be discussed at the meeting, and exercising the shareholders' rights to participate and vote at the meeting.

Proposals or requests to convene an extraordinary shareholders meeting may be submitted to the Board by a shareholder holding 10 percent or more of the voting shares. If the Board fails to make a decision within 10 working days from the date of receipt of the request, the shareholder who made the request may decide to call an extraordinary shareholders meeting.

The Company received its official approval to become a public company from the Financial Regulatory Commission on 13 October 2021 and convened an Extraordinary General Meeting on 28 December 2021 in accordance with relevant laws, regulations and procedures. 83.9 percent of all shareholders with voting rights attended such meeting and discussed and approved the following 4 main items:

1. Change the legal form of the Company;
2. Change the Company's principal place of business;
3. Approve the Charter of the Company; and
4. Appoint the directors and ordinary and independent non-executive directors of the Board.

In order to ensure the shareholders rights, the Company announced the Extraordinary General Meeting through social media and provided shareholders with an opportunity to review the meeting materials and vote in advance through https://hural.cumongol.mn website. All Directors of the Board and Executive Management participated in the Extraordinary General Meeting and provided answers and clarifications to shareholders' questions and enquiries.

Shareholders communication

The Company considers that providing information to shareholders, investors and other stakeholders through various communication channels simultaneously and in transparent manner is essential for enhancing investors relations and investors understanding of the Company's operations and business strategies.

The Company provides information to the public in a timely manner through its website, the Mongolian Stock Exchange's website, printing and publishing in accordance with the procedures approved by the Financial Regulatory Commission and other forms that allow the interested person to receive the information without any delays.

The Company has created a special page on its website for investors and shareholders including information related to the Company's structure and governance, composition of the Board and Executive Management, the Shareholders' Meeting, the Company's annual, interim and quarterly financial and operational reports and stock price information, and those information is updated as needed.

Dividend procedure

The Board has approved the Dividend Procedure considered to be the Company's dividend policy document that determines the amount of dividends to be distributed to the shareholders, the terms and conditions of dividend distribution and other matters related to making decisions on distributing announcing and reporting of dividends.

As the Company operated at a loss in 2021, in accordance with the plans specified in the Prospectus, the Board of the Company resolved not to declare a final dividend for the fiscal year 2021 by the Resolution No. 3 on 18 February 2022.

4.2. Board of Directors

In order to create long-term value for shareholders and other stakeholders, the Board defines the main activities, policies and strategies in the interests of shareholders, establishes an internal control system and directs and supervises the Executive Management. The Board is currently comprised of nine Directors, consisting of six Directors and three independent non-executive Directors.

Directors of the Board:

1. Gankhuyag Adilbish, Executive Chairman of the Board and Chairman of the Nomination Committee
2. Ganbold Adilbish, Director of the Board and Chairman of the Remuneration Committee
3. Bat-Erdene Gansukh, Director of the Board and member of the Audit Committee
4. Batmunkh Ochirbat, Director of the Board and member of the Environmental, Social and Governance Committee
5. Chinzorig Ganbold, Director of the Board and Chief Executive Officer
6. Bat-Erdene Boldbaatar, Director of the Board and member of the Environmental, Social and Governance Committee

Independent Non-Executive Director of the Board:

1. Enkhbold Nyamjav, Independent Non-Executive Director of the Board and member of the Nomination Committee and the Remuneration Committee
2. Mergen Chuluun, Independent Non-Executive Director of the Board, Chairman of the Audit Committee and member of the Nomination Committee
3. Gary Stephen Biondo, Independent Non-Executive Director of the Board, Chairman of the Environmental, Social and Governance Committee and member of the Remuneration Committee and the Audit Committee

Appointment, re-election and dismissal of Directors

According to the Charter of the Company, the term of office of the Executive Chairman and Directors shall be 3 years. The shareholders meeting of the Company shall decide the matters related to the appointment, powers and early termination of the Directors of the Board and the Directors shall be elected by using cumulative voting methods. The Directors may be re-elected and shall be nominated for re-election based on attendance record at the Board meetings and performance review.

If a Director is unable to perform his/her duties for a long-time, submit request for resignation, or deceased, the Board may temporarily appoint a person to replace the Director until next re-election.

Training and professional development of the Directors

The Company provides every newly appointed Director with an induction training on rights, responsibilities and liabilities of the Directors and financial and operational reports of the Company.

On 1 November, 2021, the Directors and authorized officials of the Company participated in training to certify advanced level of corporate governance knowledge organized by Mongolian Association of Securities Dealers and the Center for Corporate Finance, Economy and Legal Studies. The training covered subjects including (i) the responsibilities of a public company to disclose information and transparency of information; (ii) information to be considered as inside information in the Mongolian securities market and responsibilities of insider; (iii) oversight by the Financial Regulatory Commission; (iv) the Mongolian Stock Exchange; (v) Secretary of the Board and Compliance; (vi) authorized officials of the Company; and (vii) Important transactions.

On 20 November 2021, all Directors of the Company participated in induction training organized by the Executive Management covering subjects including (i) the Company's main operations, business strategies, policies, objectives, infrastructure, risks and challenges; (ii) Corporate governance and structure; and (iii) introduction to the relevant laws, regulations and procedures to be followed in by joint stock company.

Remuneration of the Board and Executive Management

In fiscal year 2021, there was no remuneration paid to the Directors and the total amount of remuneration paid to the Executive Management was MNT726,708,634.

The following table shows the number of shares held by the Directors and the Executive Management of the Company.

Shares held by the Directors and the Executive Management

Name of the Director	Number of common shares	Ownership percentage
Gankhuyag.A	238,117,485	29.1%
Ganbold.A	172,327,784	21.1%
Batmunkh.O	20,001,751	2.4%
Bat-Erdene.G	19,778,691	2.4%
Chinzorig.G	44,150	0.005%
Bat-Erdene.B	80,000	0.01%
Enkhbold.N	961,538	0.12%

Save as disclosed above, no other Director owns any shares of the Company as of 31 December 2021.

Board Committees

On December 28, 2021, the Board of Directors established the Audit Committee, the Nomination Committee, the Remuneration Committee and the Environment, Society and Governance Committee under the Board of Directors and appointed the chairmen and members of the committees. In addition, the rules of procedure of the 4 board committees have been approved and posted on the Company's website and can be presented at the request of any interested person.

Environmental, Social and Governance Committee

The Environmental, Social and Governance ("ESG") Committee consists of two Directors, namely Batmunkh Ochirbat and Bat-Erdene Boldbaatar and one independent non-executive Director, namely Gary Stephen Biondo. Gary Stephen Biondo is the chairman of the ESG Committee.

The ESG Committee shall (i) develop the Company's ESG vision, strategy and policy and oversee the implementation; (ii) review emerging trends and issues related to ESG and develop the Company's ESG vision and provide guidance; (iii) develop and update the Company's policies on safety, environmental protection, social responsibility and corporate governance; and (iv) monitor training and continuous professional development of Directors and Executive Management, develop, review and monitor policies, procedures, manuals and codes of conduct on compliance with relevant laws and regulations, evaluate activities of the Board and its committees and contributions of the Directors and provide recommendations to the Board.

Audit Committee

The Audit Committee consists of two independent non-executive Director, namely Mergen Chuluun and Gary Stephen Biondo, and one Director, namely Bat-Erdene Gansukh. Mergen Chuluun is the chairman of the Audit Committee.

The Committee shall review and recommend to the Board the process of preparing financial statements of the Company, the normal operation of audit process, implementation of applicable laws and regulations. The Audit Committee shall verify the independence of internal and external auditors and serve as a focal point for communication between other Directors, Executive Management, the external auditor and the internal auditor. The Audit Committee shall make recommendations on the following matters and present the Board:

- Compliance of the Company's accounting policies and records in line with international standards and monitor the accuracy of financial reports and other financial and economic information;
- Recommendation on the appointment and remuneration of head and staff of the internal control department;
- Recommendation on selection and remuneration of auditor; and
- Review and recommendation on major and connected transactions.

Nomination Committee

The Nomination Committee consists of three members, namely Gankhuyag Adilbish, being Executive Chairman, and Enkhbold Nyamjav and Mergen Chuluun, being independent non-executive Director. Gankhuyag Adilbish is the chairman of the Nomination Committee.

The Nomination Committee is responsible to support the Board's oversight and management functions, identify suitable individuals with relevant skills and knowledge needed for the Company, and develop and recommend to the Board long and short term strategic workforce planning to support the Company to achieve its business objectives and sustainable development.

Remuneration Committee

The Remuneration Committee consist of three members, namely Ganbold Adilbsih, being the Director, and Enkhbold Nyamjav and Gary Stephen Biondo, being the independent non-executive Directors. Ganbold Adilbish is the chairman of the Remuneration Committee.

The Remuneration Committee is responsible for determining and overseeing the remuneration packages of the Directors, Chief Executive Officer and Executive Management and evaluating the amount of remuneration packages based on the relevant conditions of labor market within the main objective to retain highly skilled Directors and Executives in order to increase shareholders' value.

Activities of the Board

The Company has adopted the Board Charter and the Board is operating in accordance with this charter and relevant laws, regulations and procedures.

The Board has an authority to carry out all activities necessary for providing effective strategic management and stable monitoring, except for matters within the scope of shareholders' powers set forth in applicable laws and regulations and the Charter of the Company. The Board is operating within the core function for creating long-term value for shareholders and safeguard the interests of stakeholders.

During the reporting period, the Board of Directors of the Company met four times and all Directors attended these meeting with attendance record of 100 percent.

4.3. Risk management and internal control

Key risks identified by the Company, their impact and the implementation of risk management are set out in the "Management Discussion and Analysis, Risk Management" section.

5. Financial statements

Consolidated statement of profit or loss and other comprehensive income, MNT thousand

	2021	2020
Revenue from contracts with customers	94,038,017	45,348,032
Cost of sales	(100,906,088)	(50,706,836)
Gross loss	(6,868,071)	(5,358,804)
General, administrative, and selling ex-penses	(7,854,845)	(5,102,425)
Other gains/(losses), net	689,059	(33,610)
Other income	250,167	-
Operating loss	(13,783,689)	(10,494,839)
Finance costs	(5,700,493)	(5,588,408)
Finance income	1,429,902	159,415
Loss before income tax	(18,054,280)	(15,923,832)
Income tax expense	(11,496)	195,737
loss for the year	(18,065,778)	(15,728,095)
Other comprehensive profit for the year	-	-
Total comprehensive loss for the year	(18,065,778)	(15,728,095)
Loss per ordinary share for loss from con-tinuing operations attributable to the owners of the Company, basic and diluted (in MNT per share)	**(37.78)**	**(91.73)**

Corporate Governance Report

Consolidated Statement of Financial Position, MNT thousand

	2021	2020
Property, plant, and equipment	40,471,007	17,916,171
Right-of-use assets	22,599,622	16,813,036
Finance lease receivables	4,092,438	2,062,987
Intangible assets	2,909,300	2,808,115
Goodwill	2,818,907	-
Other receivables	1,075,318	404,800
Other non-current advances	415,869	369,717
Deferred income tax assets	279,073	240,809
Total non-current assets	74,661,534	40,615,635
Investments in debt securities	14,861,351	-
Inventories	14,072,543	6,710,974
Cash and cash equivalents	4,061,156	6,104,077
Prepayments	2,926,557	1,844,388
Trade and other receivables	2,419,423	1,469,744
Loan issued	2,016,877	-
Finance lease receivables - current	453,435	171,821
Total current assets	40,811,341	16,301,004
Total assets	**115,472,875**	**56,916,639**
Share capital	81,776,864	17,145,256
Share premium	13,820,503	-
Accumulated deficit	(51,591,071)	(33,525,294)
Total equity	**44,006,296**	**(16,380,038)**
Long-term lease liabilities	26,918,102	19,570,737
Long-term borrowings	14,411,323	10,520,000
Other long-term liabilities	89,444	-
Total non-current liabilities	41,418,869	30,090,737
Trade and other payables	22,665,543	24,320,649
Lease liabilities	3,807,028	1,627,744
Borrowings	2,077,020	16,360,739
Contract liabilities	973,614	457,164
Other tax payable	474,627	439,644
Current income tax payable	49,878	-
Total current liabilities	30,047,710	43,205,940
Total liabilities	**71,466,579**	**73,296,677**

Consolidated statement of cash flows, MNT thousand

	2021	2020
Loss before income tax	(18,054,281)	(15,923,832)
Adjustments for:		
Depreciation of property, plant and equipment	5,182,885	3,048,671
Loss from disposal of fixed assets	30,992	-
Asset write off	29,913	76,645
Amortization of intangible assets	544,890	454,885
Inventory write-off	3,571,046	26,870
Bad debt expense	145,538	1,052
Depreciation of Right-of-use asset	3,624,673	1,823,177
Foreign exchange differences	52,740	145,819
Finance income	(1,429,902)	(159,415)
Finance cost	5,700,493	5,716,607
Gain on disposal of Right-of-use asset	(706,646)	(234,568)
Operating cash flows before working capital changes	(1,307,659)	(5,024,089)
Increase in trade and other receivables	(477,454)	(654,374)
Increase in inventories	(10,525,886)	(2,713,153)
Increase in trade and other payables	14,989,550	17,331,645
Increase in prepayments	(1,726,873)	(977,941)
Decrease in other tax payable	(49,719)	(77,196)
Increase in contract liabilities	516,450	410,500
Operating cash flows after working capital changes	1,418,409	8,295,392
Interest paid for borrowings	(1,770,685)	(2,240,343)
Income taxes paid	(19,790)	(45,072)
Interest paid for lease liabilities	(3,987,607)	(2,974,883)
Interest received	573,856	159,415
Net cash used in operating activities	**(3,785,817)**	**3,194,509**
Purchase of property, plant and equipment	(13,739,877)	(7,951,042)
Proceeds from sale of equipment	25,863	174,232
Purchase of intangible assets	(542,004)	(353,020)
Proceeds from sale of intangible assets	-	3,251
Receipt from finance lease receivable	338,880	571,097
Acquisition of subsidiaries, net of cash acquired	242,776	-
Loans granted to related parties	(2,000,000)	-
Acquisition of debt securities at FVTPL	(14,700,000)	-
Net cash used in investing activities	**(30,374,362)**	**(7,555,480)**

...

	2021	2020
...		
Proceeds from issue of share capital	29,616,600	-
Proceeds from borrowings	5,192,725	13,787,912
Payment of finance lease liabilities	(2,122,067)	(717,602)
Payment on borrowings	(570,000)	(3,241,964)
Net cash from financing activities	**32,117,258**	**9,828,346**
Effect of exchange rate changes on cash and cash equivalents	-	(14,780)
Net (decrease)/increase in cash and cash equivalents	**(2,042,921)**	**5,467,373**
Cash and cash equivalents at the beginning of year	**6,104,077**	**651,484**
Cash and cash equivalents at end of the year	**4,061,156**	**6,104,077**

6. Appendix

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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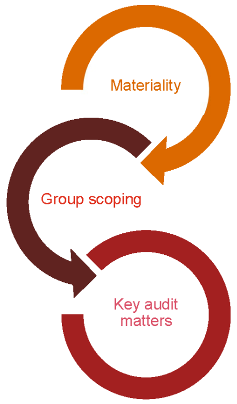
Our audit approach

Overview



Materiality

- 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.

Group scoping

- 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.

Key audit matters

- 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.

Appendix

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.

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:

Bayarmaa Davaa
Executive Director
PricewaterhouseCoopers Audit LLC

Approved by:

Shaukat Tapia
Partner
PricewaterhouseCoopers Audit LLC

15 April 2022

Ulaanbaatar, Mongolia

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