

APU JSC AND SUBSIDIARIES

Consolidated Financial Statements

For the year ended 31 December 2019

(With Independent Auditors' Report Thereon)

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Directors' Responsibility Statement

The Group's Board of Directors is responsible for the preparation of the consolidated financial statements.

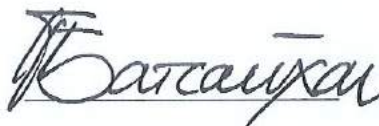
The consolidated financial statements of APU JSC and its subsidiaries (together "the Group") have been prepared to comply with International Financial Reporting Standards. The Group's Board of Directors is responsible for ensuring that these consolidated financial statements present fairly the state of affairs of the Group's financial position as at 31 December 2019 and the financial performance and cash flows for the year then ended on that date.

The Group's Board of Directors has responsibility for ensuring that the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and which enable them to ensure that the consolidated financial statements comply with the requirements set out in Note 2 to Note 6 thereto.

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

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

The consolidated financial statements of the Group for the year ended 31 December 2019 were authorised for issuance by the Group's Board of Directors.



P. Batsaikhan
Chairman



Ts. Erdenebileg
Chief Executive Officer



G. Enkhbileg
Chief Financial Officer

Ulaanbaatar,
Mongolia

Date: 31 March 2020



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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of APU JSC and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

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



Key Audit Matters, continued

Impairment assessment of goodwill and non-current assets

Refer to Note 8 to the consolidated financial statements and the accounting policies in Note 6 (h) and Note 6 (l).

Area of focus	How our audit addressed the area of focus
<p>In December 2017, APU JSC merged with Evergreen Investments LLC which resulted in the acquisition of material new subsidiaries, as described in Note 1. The Group determined this acquisition was a business combination for which the purchase price was allocated between the acquired identified assets and liabilities measured at fair value, such as trademarks and customer relationships, leading to the resultant recognition of goodwill of MNT 15,468,093 thousand.</p> <p>Under the Group’s accounting policies, goodwill with an indefinite useful life is tested for impairment annually and whenever there is an indication of impairment, together with the relevant cash generating units (“CGUs”) to which the goodwill has been allocated. In order to assess the recoverable amount of goodwill, management calculated the present value of the estimated future cash flows of the relevant CGUs using a cash flow forecast compiled by management based on the Group’s strategic plan.</p> <p>We identified the impairment assessment of goodwill and non-current assets as a key audit matter because of its importance to the consolidated financial statements, and because determining any impairment required is highly subjective as significant judgment and estimation is required to be exercised, particularly over the key assumptions such as forecasted income, the average long term growth rate, forecasted margins and appropriate risk adjusted discount rates, all of which can be inherently uncertain and could be subject to management bias.</p>	<p>Our audit procedures to assess the impairment test of goodwill included the following:</p> <ul style="list-style-type: none"> - We reviewed the Group’s assessment of impairment indicators and impairment tests including review of the methodology applied under IAS 36 <i>Impairment of Assets</i> and reconciliation of the carrying values of assets and liabilities in the CGUs to their carrying values in the Group accounting. - We engaged our internal valuation specialists to evaluate the methodology and assumptions adopted in the discounted cash flow forecasts compiled by management, with reference to the requirements of the prevailing accounting standards. - We assessed the assumptions and critical judgments adopted in the discounted cash flow forecasts by comparing key inputs, including forecasted income, the average long term growth rate and forecasted margins with the Group’s financial budgets and strategic plans and with industry trends. - We evaluated the risk adjusted discount rates applied in the discounted cash flow forecasts by benchmarking the discount rates against that of similar companies in the same industry. - We performed a retrospective review by comparing the prior year’s forecast with the current year’s results to assess the historical accuracy of management’s forecasting process. - We assessed the disclosures in the consolidated financial statements in relation to the impairment assessment of goodwill with reference to the requirements of the prevailing accounting standards.



Key Audit Matters, continued

Revenue recognition

Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 6 (p).

Area of focus	How our audit addressed the area of focus
<p>Under International Standards on Auditing there is a presumed fraud risk relating to revenue recognition. We have determined this to apply to the occurrence of the revenue because of the pressure management may feel to achieve the planned results.</p> <p>Further, the Group adopted the revenue standard, IFRS 15 <i>Revenue from Contracts with Customers</i>, from 1 January 2018.</p> <p>Due to these factors, we have considered revenue recognition to be a key audit matter relevant to our audit of the consolidated financial statements.</p>	<p>Our audit procedures over revenue included, among others:</p> <ul style="list-style-type: none">- We tested selected controls management has in place over the sales and revenue recognition process, focusing on controls over the existence, accuracy and timing of revenue recognition.- We challenged the revenue recognition policies adopted by the Group by making inquiries of management and inspecting a sample of sales contracts to understand the delivery terms of the transactions so as to assess the Group's timing of revenue recognition with reference to the requirements of the prevailing accounting standards.- We assessed whether revenue was recognized in the appropriate accounting period and in accordance with the terms of the sales contracts by comparing a sample of sales transactions recorded around the year end with relevant underlying documents, which included goods dispatch notes or documentation indicating the customers' acknowledgment of delivery of the goods sold.- We performed trend analyses of the main revenue lines of the Group, we developed an expectation of the Group's revenue using quantities and prices, and we performed audit procedures over sales between the Group and its customers such as customer confirmations.- We searched for manually entered journal entries to the sales account recorded outside the regular sales process above a monetary threshold.- We assessed the disclosures in the consolidated financial statements in relation to the revenue with reference to the requirements of IFRS 15.



Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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

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

The engagement partner on the audit resulting in this independent auditors' report is Mark Eberst, and the General Director of the audit firm is Soyolmaa Gungaanyambuu.



Signed by:

Soyolmaa Gungaanyambuu
General Director

Approved by:

Mark Eberst
Partner

This report is effective as at 31 March 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any. Furthermore, this report is intended solely for the use of the shareholders of the Group. To the fullest extent permitted by law, we do not assume responsibility towards or accept liability to any other party in relation to the contents of this report.

APU Joint Stock Company and Subsidiaries
Consolidated Statement of Financial Position
As at 31 December 2019

<i>(In thousands of MNT)</i>	<u>Note</u>	<u>31 Dec 2019</u>	<u>31 Dec 2018</u>
Assets			
Property, plant and equipment ¹	7	260,112,683	261,659,807
Intangible assets and goodwill	8	92,149,037	96,884,782
Deferred tax assets	22	605,045	1,289,781
Non-current assets		<u>352,866,765</u>	<u>359,834,370</u>
Inventories	9	89,521,542	76,790,056
Prepayments and prepaid expenses	10	9,352,738	10,911,252
Income tax receivable	22	3,908,627	100,342
Trade and other receivables	11,25	39,822,776	34,988,142
Cash and cash equivalents	12,25	50,034,921	61,123,898
Current assets		<u>192,640,604</u>	<u>183,913,690</u>
Total assets		<u>545,507,369</u>	<u>543,748,060</u>
Equity			
Share capital	13	106,297	106,297
Share premium	13	338,094,870	338,094,870
Merger reserve	13	(112,795,804)	(112,795,804)
Revaluation reserve	7,13	101,458,119	102,499,344
Foreign currency translation reserve		8,230	(6,646)
Retained earnings		154,411,091	124,765,611
Equity attributable to owners of the Group		<u>481,282,803</u>	<u>452,663,672</u>
Non-controlling interest	26	-	1,731,044
Total equity		<u>481,282,803</u>	<u>454,394,716</u>
Liabilities			
Deferred tax liabilities	22	19,383,756	22,954,642
Long-term lease liabilities	23	8,421,583	-
Non-current liabilities		<u>27,805,339</u>	<u>22,954,642</u>
Short-term lease liabilities	23	1,700,649	-
Income tax payable	22	1,318,469	3,900,409
Trade and other payables	14	33,400,109	62,498,293
Current liabilities		<u>36,419,227</u>	<u>66,398,702</u>
Total liabilities		<u>64,224,566</u>	<u>89,353,344</u>
Total equity and liabilities		<u>545,507,369</u>	<u>543,748,060</u>

¹Following the adoption of IFRS 16, the Group has presented right-of-use assets within 'property, plant and equipment'.

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

APU Joint Stock Company and Subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

<i>(In thousands of MNT)</i>	Note	2019	2018
Revenue	15	472,634,238	425,908,231
Cost of sales	16	(260,200,063)	(247,281,758)
Gross profit		212,434,175	178,626,473
Selling and administrative expenses	17	(112,451,819)	(107,840,432)
Impairment loss on financial assets	11,12	(410,290)	(604,715)
Other income	18	3,128,412	3,584,055
Other expenses	19	(3,305,484)	(4,528,195)
Profit from operations		99,394,994	69,237,186
Finance income	20	1,728,328	1,822,207
Finance costs	21	(2,575,511)	(5,091,919)
Profit before income tax		98,547,811	65,967,474
Income tax expense	22	(22,434,916)	(17,724,910)
Profit for the year		76,112,895	48,242,564
Other comprehensive income:			
<i>Items that will never be reclassified to profit or loss:</i>			
Revaluation of property, plant and equipment	7,13	-	23,941,380
Exchange rate differences on translation		35,293	(11,199)
Total comprehensive income for the year		76,148,188	72,172,745
Profit attributable to:			
Owners of the Parent Company		76,062,489	48,153,298
Non-controlling interest		50,406	89,266
Profit for the year		76,112,895	48,242,564
Total comprehensive income attributable to:			
Owners of the Parent Company		76,097,782	72,083,479
Non-controlling interest		50,406	89,266
Total comprehensive income for the year		76,148,188	72,172,745
Earnings per share			
Basic earnings per share	31	71.6	45.3

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

APU Joint Stock Company and Subsidiaries
Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Parent Company							Non-controlling interest (Note 26)	Total equity
	Share capital (Note 13)	Share premium (Note 13)	Merger reserve (Note 13)	Revaluation reserve (Note 7, 13)	Foreign currency translation reserve	Retained earnings	Total		
Balance at 1 January 2018	106,297	338,094,870	(112,795,804)	78,756,448	4,553	87,043,576	391,209,940	1,642,596	392,852,536
<i>Total comprehensive income:</i>									
Profit for the year	-	-	-	-	-	48,153,298	48,153,298	89,266	48,242,564
Other comprehensive income	-	-	-	23,941,380	(11,199)	-	23,930,181	-	23,930,181
<i>Transactions with owners:</i>									
Dividends declared	-	-	-	-	-	(10,629,747)	(10,629,747)	(818)	(10,630,565)
Transfers to retained earnings	-	-	-	(198,484)	-	198,484	-	-	-
Balance at 31 December 2018	106,297	338,094,870	(112,795,804)	102,499,344	(6,646)	124,765,611	452,663,672	1,731,044	454,394,716
Balance at 1 January 2019	106,297	338,094,870	(112,795,804)	102,499,344	(6,646)	124,765,611	452,663,672	1,731,044	454,394,716
<i>Total comprehensive income:</i>									
Profit for the year	-	-	-	-	-	76,062,489	76,062,489	50,406	76,112,895
Other comprehensive income	-	-	-	-	35,293	-	35,293	-	35,293
<i>Transactions with owners:</i>									
Dividends declared	-	-	-	-	-	(48,898,753)	(48,898,753)	-	(48,898,753)
<i>Changes in ownership interest</i>									
Acquisition of non-controlling interest without a change in control	-	-	-	(1,041,225)	(20,417)	1,420,102	1,420,102	(1,781,450)	(361,348)
Transfers to retained earnings	-	-	-	1,061,642	-	-	1,061,642	-	-
Balance at 31 December 2019	106,297	338,094,870	(112,795,804)	101,458,119	8,230	154,411,091	481,282,803	-	481,282,803

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

APU Joint Stock Company and Subsidiaries
Consolidated Statement of Cash Flows
For the year ended 31 December 2019

<i>(In thousands of MNT)</i>	Note	2019	2018
Cash flows from operating activities			
Profit for the year		76,112,895	48,242,564
Adjustments for:			
Income tax expense	22	22,434,916	17,724,910
Interest expense on loans	21	-	3,179,756
Interest expense on lease liabilities	21	2,203,914	-
Interest income	20	(1,728,328)	(1,822,207)
Unrealised foreign exchange gain, net		(188,657)	(228,426)
Depreciation	7	32,134,355	34,248,280
Amortisation	8	6,866,558	6,874,405
Impairment loss on trade and other receivables, net	11	170,333	604,715
Impairment loss on bank balances	12	239,957	-
Impairment loss on property, plant and equipment	19	-	1,952,652
Impairment loss on slow moving and obsolete items	9	600,081	529,459
Gain on disposal of property, plant and equipment	18	(197,345)	(500)
Loss on disposal of property, plant and equipment	19	255,885	48,765
Loss on write-off of property, plant and equipment	19	502,942	281,105
Loss on write-off of intangible assets	19	4,854	-
		139,412,360	111,635,478
Changes in assets and liabilities:			
Trade and other receivables		(5,122,284)	8,341,727
Inventories		(14,408,295)	(6,580,877)
Prepayments		1,477,648	(4,508,033)
Trade and other payables		(559,203)	(1,947,342)
		120,800,226	106,940,953
Interest on loans paid		-	(3,167,618)
Interest on lease liabilities paid ¹		(2,203,914)	-
Interest received	20	1,728,328	1,822,207
Income taxes paid	22	(31,688,732)	(13,468,108)
Net cash provided by operating activities		88,635,908	92,127,434

APU Joint Stock Company and Subsidiaries
Consolidated Statement of Cash Flows, continued
For the year ended 31 December 2019

<i>(In thousands of MNT)</i>	<u>Note</u>	<u>2019</u>	<u>2018</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(22,226,957)	(12,600,217)
Acquisition of intangible assets	8	-	(54,507)
Acquisition of non-controlling interest	26	(57,686)	-
Proceeds from disposal of property, plant and equipment	7	1,004,525	678,965
Net cash used in investing activities		<u>(21,280,118)</u>	<u>(11,975,759)</u>
Cash flows from financing activities			
Repayment of borrowings		-	(69,077,504)
Dividends paid	13	(77,121,281)	(1,101,706)
Payment of lease liabilities		(1,241,819)	-
Net cash used in financing activities		<u>(78,363,100)</u>	<u>(70,179,210)</u>
Exchange difference on translating foreign operation		23,873	2,141
Net (decrease) increase in cash and cash equivalents		<u>(10,983,437)</u>	<u>9,974,606</u>
Cash and cash equivalents at the beginning of year	12	61,123,898	51,009,027
Impairment loss on cash and cash equivalents	12	(239,957)	-
Effect of foreign exchange rate fluctuations on cash held		134,417	140,265
Cash and cash equivalents at the end of year	12	<u>50,034,921</u>	<u>61,123,898</u>

¹The Group has classified:

- cash payments for the principal portion of lease payments as financing activities;
- cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Group.

The Group has not restated comparative information.

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

APU Joint Stock Company and Subsidiaries
Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

1. Reporting Entity

(a) Description of the controlling company

APU Joint Stock Company ("the Company" or "APU JSC") was established in 1924. It is registered at Khan-Uul District, 2nd Khoroo, Chinggis Khaan Avenue, APU JSC building and domiciled in Mongolia. The Company manufactures vodka, other spirits, beer and non-alcoholic beverages.

Merger with Evergreen, 2017

In April 2017, in order to form the largest beverage union in Mongolia, Shunkhlai Group LLC (one of APU JSC's shareholders and owned by the Chairman of APU JSC) and Heineken Asia Pacific Pte. Ltd ("HAP") established Evergreen Investments LLC (a special purpose vehicle, "Evergreen"), a Mongolian holding entity. Shunkhlai Group LLC and Heineken Asia Pacific Pte. Ltd contributed their beverage related businesses into Evergreen.

At the end of 2017, Evergreen merged with the Company after appropriate approvals from the related authorities and shareholders, and the Company issued new shares to the owners of Evergreen. As a result, HAP became the owner of 25% of the Company, and Evergreen's investments became subsidiaries of APU JSC. Through the merger with Evergreen, the ultimate controlling party of the Company became Shunkhlai Group LLC.

Internal group restructuring

In 2018 and 2019, the Company rationalized the structure of its subsidiaries to simplify its operations and reduce the number of entities. Natur Agro LLC, a fully owned subsidiary, was merged to the Company, and the assets of Mongolian Beverages Company Pte. Ltd, Ulaanbaatar Spirit LLC, and Depod LLC were transferred to the Company. These three entities are in the process of, or have been, liquidated.

(b) Consolidated subsidiaries as at 31 December 2019

Subsidiaries	Location	Reporting date	Ownership (%)	
			2019	2018
Grand LLC	Russia	31 December	100%	100%
Mongolian Beverages Company Pte. Ltd	Singapore	31 December	100%	100%
APU Trading LLC	Mongolia	31 December	100%	100%
Natur Agro LLC	Mongolia	31 December	*N/A	100%
MBC Asia Pacific LLC (previously MCS Asia Pacific Brewery LLC)	Mongolia	31 December	100%	**45%
Spirit Bal Buram LLC	Mongolia	31 December	***100%	97.2%
SBB Trade LLC	Mongolia	31 December	100%	100%
APU Dairy LLC	Mongolia	31 December	100%	100%

* In 2019, Natur Agro LLC was merged to the Company.

** The other 55% of the share capital of MBC Asia Pacific LLC was owned by Mongolian Beverages Company Pte.Ltd, which is fully owned by the Company.

*** On 30 April 2019, the Board of Directors of the Company resolved to acquire the remaining shares of Spirit Bal Buram LLC owned by minority shareholders.

APU Joint Stock Company and Subsidiaries
Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

1. Reporting Entity, continued

Description of subsidiaries

Grand LLC is incorporated and operated in Krasnoyarsk, Russia and operates as a distribution company for APU brand products.

Mongolian Beverages Company Pte. Ltd (MBC) is a limited liability company domiciled and incorporated in the Republic of Singapore. The registered office is 9 Temasek Boulevard #04-02, Suntec Tower Two, Singapore 038989.

APU Trading LLC, APU Dairy LLC, MBC Asia Pacific LLC, Spirt Bal Buram LLC and SBB Trade LLC are limited liability companies, incorporated and domiciled in Mongolia:

- APU Trading LLC operates as a trader and distributor of alcoholic and non-alcoholic beverages in Mongolia. APU Trading LLC's registered office address is Capital House, 2nd floor, Peace Avenue 48/1, 2nd Khoroo, Khan-Uul District, Ulaanbaatar, Mongolia.
- The principal activities of MBC Asia Pacific LLC (previously MCS Asia Pacific Brewery LLC) are the brewing and sale of beer. The registered office and principal place of business is MCS Tiger Brewery, Peace Avenue, 10th Khoroo, Bayanzurkh district, Ulaanbaatar, Mongolia. On 26 July 2019, MCS Asia Pacific Brewery LLC changed its name to MBC Asia Pacific LLC.
- Spirt Bal Buram LLC is principally engaged in the production and sale of vodka. The registered office and principal place of business is Building of Spirt Bal Buram LLC, Shirkhentseg bag, Mandal soum, Selenge province, Mongolia.
- SBB Trade LLC is a trader and distributor of alcoholic beverages in Mongolia. Its activities comprise of sales and marketing in Mongolia and distribution of vodka and beer within Ulaanbaatar city. The registered office and principal place of business is Chinggis avenue, Khan-Uul district, 1st sub-district, Ulaanbaatar, Mongolia.
- APU Dairy LLC manufactures and trades dairy products. It is registered at Khan-Uul District, 1st Khoroo, Chinggis Khaan Avenue 33/5 and domiciled in Mongolia.

Natur Agro LLC was a company registered and domiciled at Uildver Street -79, Uildver -1, Khoroo-3, Khan-Uul District, Ulaanbaatar, Mongolia. Natur Agro LLC's main activity was to lease its spirit factories and equipment to APU JSC for production of spirit and related beverages. Under a merger agreement between Natur Agro LLC and the Company dated 5 August 2019, Natur Agro LLC's business, including all assets and liabilities, was merged into the Company.

The consolidated financial statements comprise the Company and its subsidiaries (together referred to as "the Group"). The Group is primarily engaged in manufacturing and selling of vodka, other spirits, beer, non-alcoholic beverages and dairy products.

APU Joint Stock Company and Subsidiaries
Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

2. Basis of preparation

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2(c).

This is the first set of the Group's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 5.

Certain corresponding figures have been reclassified to conform to the current year's presentation.

The consolidated financial statements were authorised for issue by the Directors on 31 March 2020.

(b) Functional and presentation currency

These consolidated financial statements are presented in Mongolian tugrik ("MNT") which is also the parent company's functional currency and the currency of the primary economic environments in which the Group operates. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(c) Use of judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The key sources of estimation uncertainty and judgments used in preparation of these consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and earnings within the next financial year, are discussed below.

(i) Impairment of goodwill and intangible assets with indefinite useful life

Goodwill and intangible assets with indefinite useful life are tested for impairment annually and whenever there is an indication of impairment. The Group estimates the value in use of the cash-generating units to which the goodwill and intangible asset with indefinite useful life is allocated.

Estimating the value in use requires the Group, with the help of independent professional valuers where applicable, to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The impairment tests are sensitive to growth rates and discount rates. Changes in these assumptions may result in changes in recoverable values. The carrying amount of the Group's goodwill and indefinite life intangible assets at the balance sheet date amounted to MNT 15,468,093 thousand (2018: MNT 15,468,093 thousand), as disclosed in Note 8 to the consolidated financial statements.

2. Basis of preparation, continued

(c) Use of judgments and estimates, continued

(ii) Deferred income taxes

In calculating the income taxes, the Group considers factors such as tax rates in Mongolia, non-deductible expenses, changes in tax law, and management's expectations of future results. The Group estimates deferred income taxes based on temporary differences between the income and losses reported in its consolidated financial statements and its taxable income and losses as determined under the applicable tax laws. The tax effects of these temporary differences are recorded as deferred tax assets or liabilities in the consolidated financial statements.

The Group does not recognise deferred tax assets where management does not expect such assets to be realised based upon current forecasts. In the event that actual results differ from these estimates, adjustments are made in future periods in these estimates, and changes in the amount of the deferred tax assets recognised may be required, which could materially impact the financial position and the income for the period.

Total deferred tax assets recognised in the Group's consolidated statement of financial position amounted to MNT 605,045 thousand and MNT 1,289,781 thousand as at 31 December 2019 and 2018, respectively.

Total deferred tax liabilities recognised in the Group's consolidated statement of financial position amounted to MNT 19,383,756 thousand and MNT 22,954,642 thousand as at 31 December 2019 and 2018, respectively, see Notes 6 (r) and 22.

(iii) Fair value of property, plant and equipment

As set out in Note 6 (g), the Group applies the revaluation model for all classes of property, plant and equipment. In January 2018, a fair value measurement of property, plant and equipment was performed by an independent third party valuation company. The valuation was based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. Judgment is required in relation to the selection of assumptions in arriving at the fair values and the determination of the frequency of performing a revaluation with sufficient regularity. The fair value measurement resulted in a net revaluation surplus of MNT 23,941,380 thousand and a net impairment loss of MNT 1,952,652 thousand. The major valuation approaches and assumptions are described in Note 7.

(iv) Useful lives of property, plant and equipment

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles.

Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. The estimated useful lives of the Group's assets are set out in Note 6 (g).

In January 2018, a fair value measurement of the property, plant and equipment was performed by an independent third party valuation company as mentioned above. As a result, the management determined that the useful lives of certain items of property, plant and equipment should be changed.

APU Joint Stock Company and Subsidiaries
Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

2. Basis of preparation, continued

(c) Use of judgments and estimates, continued

(iv) Useful lives of property, plant and equipment, continued

The effect of the change in the estimate of useful lives in subsequent periods is not disclosed because its estimation is impracticable.

As at 31 December 2019 and 2018, the net book values of the Group's property, plant and equipment amounted to MNT 260,112,683 thousand and MNT 261,659,807 thousand, respectively. Total accumulated depreciation as at 31 December 2019 and 2018 amounted to MNT 125,032,290 thousand and MNT 97,480,500 thousand respectively, as disclosed in Note 7.

(v) Impairment allowance for doubtful receivable accounts

The Group estimates the impairment allowance for doubtful accounts related to its receivables based on its assessment of individual characteristics of each customer and by the economic conditions and the beverage industry in Mongolia.

In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the counterparty and the counterparty's current credit status based on credit reports and known market factors. The Group used judgment to record specific allowances for counterparties against amounts due to reduce the expected collectible amounts. These specific allowances are re-evaluated and adjusted as additional information received impacts the amounts estimated.

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilised. An increase in the allowance for doubtful accounts would increase the recognised operating expenses and decrease current assets.

Total trade and other receivables recognised in the Group's consolidated statement of financial position amounted to MNT 39,822,776 thousand and MNT 34,988,142 thousand as at 31 December 2019 and 2018, respectively, which are net of the related impairment allowances for doubtful accounts amounting to MNT 2,837,189 thousand and MNT 2,677,612 thousand as at those dates, respectively as disclosed in Note 11.

(vi) Estimating net realisable value of inventories

The net realisable value of inventories represents the estimated selling price for inventories less all estimated costs of necessary to make the sale. Reviews are made periodically by management on damaged, obsolete and slow moving inventories.

While the Group believes that the estimates are reasonable and appropriate, significant differences in the actual experience or significant changes in estimates may materially affect the profit or loss and equity.

Total inventories recognised in the Group's consolidated statement of financial position amounted to MNT 89,521,542 thousand and MNT 76,790,056 thousand as at 31 December 2019 and 2018, respectively as disclosed in Note 9.

APU Joint Stock Company and Subsidiaries
Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

2. Basis of preparation, continued

(c) Use of judgments and estimates, continued

(vii) Revenue recognition – Excise tax

Revenue is recognised when control over products has transferred and the Group fulfilled its performance obligation to the customer. The control is transferred at the delivery of the products to the customer.

Mongolian tax authorities impose multiple taxes, duties and fees. These include excise duties on the sale of alcoholic beverages and production of spirit. The excise tax on the sale of alcoholic beverages is levied on the Group at the moment of the sales transaction, and the excise is based on the sales value. The excise duties are collected on behalf of the tax authorities and consequently deducted from revenue. The excise tax on the production of spirit is levied at the moment the spirit production is completed and the excise is based on the volume of production at a fixed rate per litre. The incurred excise tax on spirit production is deducted against the due excise tax on vodka sales. Due to the requirements in tax legislation, judgment is applied in the assessment whether taxes are borne by the Group or collected on behalf of a third party.

(viii) Leases

The Group leases a restaurant, an office and factory facilities. The leases typically run for a period of 1 to 10 years, with an option to renew the lease after that date. The Group assesses at lease commencement date whether it is reasonably certain to exercise the renewal options if there is a significant event or significant changes in circumstances within its control.

The Group adopted IFRS 16 *Leases* on 1 January 2019. When measuring lease liabilities for leases that were previously classified as operating leases prior to 1 January 2019, the Group discounted lease payments using its incremental borrowing rate for the particular asset and lease term as at 1 January 2019. The weighted-average rate applied was 22% (15% for US dollar denominated leases). See details in Note 6 (j).

Total right-of-use assets recognised in the Group's consolidated statement of financial position amounted to MNT 9,194,972 thousand as at 31 December 2019, as disclosed in Note 7.

Total lease liabilities recognised in the Group's consolidated statement of financial position amounted to MNT 10,122,232 thousand as at 31 December 2019.

(ix) Going concern

The consolidated financial statements have been prepared on a going concern basis, which management has assessed as being appropriate.

3. New and amended standards issued by the International Accounting Standards Board (IASB) which apply in the current financial year

IFRS 16 Leases

IFRS 16 does not impact significantly the way that lessors account for their rights and obligations under a lease. However, lessees are no longer required to distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees account for all leases in a similar way to finance lease accounting, i.e. at the commencement date of the lease the lessee recognises and measures a lease liability at the present value of the minimum future lease payments and recognises a corresponding "right-of-use" asset.

After initial recognition of this asset and liability, the lessee recognises interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses continue to be recognised on a systematic basis over the lease term.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases.

The adoption of IFRS 16 *Leases* resulted in changes in accounting policies. The new accounting policies are set out in Note 5 "Changes in accounting policies".

Other new standards and amendments to standards

A number of other new standards and amendments to standards are also effective from 1 January 2019 but they do not have a material effect on the Group's consolidated financial statements.

4. New standards issued by the International Accounting Standards Board (IASB) which do not yet apply in the current financial year

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 Insurance Contracts.

5. Changes in accounting policies

IFRS 16

The Group initially applied IFRS 16 *Leases* from 1 January 2019 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 6 (j).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

As a lessee, the Group leases various assets including a restaurant, an office and factory facilities. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Group classified leases as operating leases under IAS 17. On transition, for these leases lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate appropriate for the asset and lease term as at 1 January 2019 (see Note 6 (j)). Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases on transition.

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5. Changes in accounting policies, continued

(b) As a lessee, continued

Leases classified as operating leases under IAS 17, continued

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(c) Impact on financial statements

Impact on transition*

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

<i>(In thousands of MNT)</i>	<u>1 January 2019</u>
Right-of-use assets – property, plant and equipment	11,386,767
Lease liabilities	11,303,427
Prepayments	83,340

* For the impact of IFRS 16 on profit or loss for the period, see Note 23. For the details of accounting policies under IFRS 16 and IAS 17, see Note 6 (j).

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate appropriate for the asset and lease term as at 1 January 2019. The weighted-average rate applied was 22% (15% for US dollar denominated leases).

<i>(In thousands of MNT)</i>	<u>1 January 2019</u>
Operating lease commitment at 31 December 2018 as disclosed under IAS 17 in the Group's financial statements	7,886,584
Discounted using the incremental borrowing rate at 1 January 2019	6,440,376
- Recognition exemption for leases with less than 12 months of lease term at transition	(2,027,121)
- Extension options reasonably certain to be exercised	6,890,172
Lease liabilities recognised at 1 January 2019	11,303,427

APU Joint Stock Company and Subsidiaries
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For the year ended 31 December 2019

6. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Subsidiary companies

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

A list of the Group's subsidiary companies is shown in Note 1.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2019.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiaries begins when the Company obtains control over the subsidiaries and ceases when the Company loses control of the subsidiaries.

Assets, liabilities, income and expenses of a subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiaries.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using uniform accounting policies for like transactions and other events in similar circumstances. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiaries, without a loss of control, is accounted for as an equity transaction.

APU Joint Stock Company and Subsidiaries
Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

6. Significant accounting policies, continued

(b) Basis of consolidation, continued

If the Group loses control over a subsidiaries, it:

- Derecognises the cumulative translation differences recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in the statement of profit or loss and other comprehensive income.
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities.
- Derecognises the assets (including goodwill) and liabilities of the subsidiaries.
- Derecognises the carrying amount of any non-controlling interest.

(c) Business combinations

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination whether the non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any) and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date. The accounting policy for goodwill is set out in Note 6 (h).

Common control transaction

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by same party or parties both before and after the combination, and that control is not transitory.

APU Joint Stock Company and Subsidiaries
Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

6. Significant accounting policies, continued

(c) Business combinations, continued

Common control transaction, continued

The Group in a common control transaction elects to use book value (carry-over basis) accounting on the basis that the investment has simply been moved from one part of the Group to another. In applying book value accounting, an adjustment may be required in equity to reflect any differences between the consideration paid and the capital of the acquiree.

(d) Transactions with non-controlling interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

(e) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Non-monetary items in a foreign currency that are measured based on historical cost are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

(f) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

6. Significant accounting policies, continued

(f) Financial instruments, continued

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

6. Significant accounting policies, continued

(f) Financial instruments, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Business model assessment, continued

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

6. Significant accounting policies, continued

(f) Financial instruments, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest, continued

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

6. Significant accounting policies, continued

(f) Financial instruments, continued

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

6. Significant accounting policies, continued

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment that qualify for recognition as assets are measured upon initial recognition at their cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labor;
- Any other cost directly attributable to bringing the assets to a working condition for their intended use; and
- Borrowing costs associated with constructed assets.

(ii) Measurement after initial recognition

After initial recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably is carried at its revalued amount, being its fair value at the date of revaluation less subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair values are estimated by an independent third party.

Any revaluation increase arising on the revaluation of such property, plant and equipment is charged to other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is charged to profit or loss to the extent of the decrease previously charged.

A decrease in carrying amount arising on the revaluation of such property, plant and equipment is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation surplus relating to a previous revaluation of that asset.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment. When revalued assets are sold or retired, any related amount included in the revaluation reserve is transferred to retained earnings.

(iii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

APU Joint Stock Company and Subsidiaries
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6. Significant accounting policies, continued

(g) Property, plant and equipment, continued

(iv) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use or in respect of internally constructed assets, from the date asset is completed and ready for use.

The estimated remaining economic useful lives for the current year following the revaluation and for the comparative year following the last revaluation of significant items of property, plant and equipment are as follows:

Items of property, plant and equipment	Useful lives
Right-of-use assets	5 - 10 years
Buildings	4 - 60 years
Equipment	5 - 30 years
Vehicles	5 - 20 years
Furniture and fixtures	2 - 19 years

Depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The change is accounted for as a change in an accounting estimate.

(h) Goodwill and intangible assets

(i) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit and loss account. Impairment losses recognised for goodwill are not reversed in subsequent periods.

APU Joint Stock Company and Subsidiaries
Notes to the Consolidated Financial Statements
For the year ended 31 December 2019

6. Significant accounting policies, continued

(h) Goodwill and intangible assets, continued

(i) Goodwill, continued

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised on a straight-line basis over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

The estimated economic useful lives of significant items of intangible assets are as follows:

Trademarks	20 years
Customer relationships	10 years
Software	3 years

Intangible assets with indefinite useful lives or that are not yet available for use are not subject to amortisation and they are tested for impairment annually or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

6. Significant accounting policies, continued

(i) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

(j) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into on or after 1 January 2019.

The Group leases as a lessee various assets such as a restaurant, an office and factory facilities. The Group has not entered into any arrangements as a lessor.

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment.

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6. Significant accounting policies, continued

(j) Leases, continued

Policy applicable from 1 January 2019, continued

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities as separate line items in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

APU Joint Stock Company and Subsidiaries
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6. Significant accounting policies, continued

(j) Leases, continued

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group's consolidated statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on a weighted-average cost principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of production inventories and work-in-progress, cost includes an appropriate share of overhead costs based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs related to completion.

(l) Impairment

(i) Non-derivative financial assets

Financial instruments and contract assets

The Group recognises loss allowances for expected credit losses (ECLs) on:

- financial assets measured at amortised cost; and
- debt investments measured at FVOCI.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

6. Significant accounting policies, continued

(I) Impairment, continued

(i) Non-derivative financial assets, continued

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

6. Significant accounting policies, continued

(I) Impairment, continued

(i) Non-derivative financial assets, continued

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of the cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6. Significant accounting policies, continued

(m) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Employee benefits of the Group include statutory social insurance payments to the State Social Insurance Scheme of Mongolia. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense as incurred.

(n) Provisions and contingencies

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of the time value of money is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary share are recognised as a deduction from equity, net of any tax effects.

(ii) Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as deduction from equity.

Repurchased shares are classified as treasury shares and are presented in the statement of changes in equity as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(iii) Retained earnings

Retained earnings represent accumulated profit attributable to equity holders of the Parent Company after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

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6. Significant accounting policies, continued

(o) Share capital, continued

(iv) Contribution by owners of the Group

Capital contributions from shareholders, being either cash or other non-monetary assets, which are non-reciprocal (i.e. no financial obligation), are accounted for directly in equity at fair value of the contributed assets.

(v) Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Parent Company's net investment in a foreign subsidiary.

(p) Revenue

The Group applies a five-step approach:

- Step 1: Identify the contract(s) with customers
- Step 2: Identify the separate performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to separate performance obligations
- Step 5: Recognize revenue when (or as) each performance obligation is satisfied

A "contract" is an agreement between two or more parties that creates enforceable rights and obligation. A contract with a customer is in the scope of IFRS 15 when it is legally enforceable and all of the following criteria are met:

- The contract is approved and the parties are committed to their obligations;
- Rights to goods or services and payment terms can be identified;
- The contract has commercial substance; and
- Collection of consideration is probable.

Promises to transfer a good are explicitly stated in the contract and considered as a performance obligation.

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring goods to a customer. The transaction price excludes amounts collected on behalf of third parties – e.g. sales taxes.

The Group estimates the transaction price at contract inception, including any variable consideration, and updates the estimate each reporting period for any changes in circumstances. When determining the transaction price, the Group assumes that the goods will be transferred to the customer based on the terms of the existing contract, and does not take into consideration the possibility of a contract being cancelled, renewed or modified.

Promotions, discounts and rebates are for the most part recorded as a reduction of revenue. Only when these relate to a distinct service the amounts are recorded as operating expenses.

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6. Significant accounting policies, continued

(p) Revenue, continued

The excise tax on the sales of alcoholic beverages is levied on the Group at the moment of the sales transaction, and the excise is based on the sales value. The excise duties are collected on behalf of the tax authorities and consequently deducted from revenue. The excise tax on the production of spirit is levied at the moment the spirit production is completed and the excise is based on the volume of production at a fixed rate per litre. The incurred excise tax on spirit production is deducted against the due excise tax on vodka sales.

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when control over products has transferred and the Group fulfilled its performance obligation to the customer. The control is transferred at delivery of the products or upon pickup by the customer from the Group's premises.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers and related revenue recognition policies.

Type of product	Nature and timing satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Beverage products	The binding document which confirms the purchase of the products by a customer is a purchase order from the customer. The customer obtains control of beverage products when the goods are delivered to and have been accepted at their premises or upon pick up by the customer from the Group. The Group's customer group can be split between key customers such as supermarkets, shops, cafes, bars, restaurants, karaoke and wholesalers. The Group uses different types of discounts and incentive programmes depending on the nature of the customer. The Group provides conditional discounts to customers. These contractually agreed conditions include volume and promotional rebates. Conditional discounts are recognised based on an estimated target realization. A discount accrual is recognised at each reporting date for discounts payable to customers based on their expected or actual volume up to that date. Invoices are generated at a point in time.	Revenue is recognised when control over products has transferred and the Group fulfilled its performance obligation to the customer. A performance obligation is the unit of account for revenue recognition. For beverage products, the performance obligation is considered to be a sale of goods. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring goods to a customer. The Group recognises revenue at the point in time at which it transfers control of the goods to the customer. The customer has control of the goods when it has the ability to direct the use of, and obtain substantially all of the remaining benefit from, the goods. The control is transferred at the delivery of the products to the customers' premises or upon pick up by the customer. Revenue recognised is based on the price specified in the contract, net of returns, promotions, discounts and sales taxes.

6. Significant accounting policies, continued

(g) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the respective assets. All other borrowing costs are recognised in profit or loss using the effective interest method.

(r) Income taxes

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

6. Significant accounting policies, continued

(r) Income taxes, continued

(ii) Deferred tax, continued

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would be treated either as a reduction to goodwill (as long as it does not exceed goodwill) if incurred during the measurement period or in profit or loss.

(s) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented is adjusted retrospectively.

6. Significant accounting policies, continued

(t) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- the entity and the Group are members of the same group (which means that each parent, subsidiaries and fellow subsidiaries is related to the others);
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- both entities are joint ventures of the same third party;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- the entity is controlled or jointly controlled by a person identified in (i);
- a person identified in (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating segments' operating results are regularly reviewed by the Group's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

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7. Property, plant and equipment

Changes in property, plant and equipment for the year ended 31 December 2019 are as follows:

(1) Cost and revaluation	Right-of-use assets	Land	Buildings	Equipment	Vehicles	Furniture and fixtures	Construction in-progress	Total
<i>(In thousands of MNT)</i>								
Cost and revaluation								
Balance at 1 January 2018	-	5,454,268	129,566,442	270,392,886	16,837,289	9,216,196	1,120,961	432,588,042
Additions	-	-	402,885	1,671,483	739,178	3,299,222	6,827,604	12,940,372
Revaluation								
- Elimination against gross carrying amount	-	-	(4,649,626)	(93,487,742)	(6,066,487)	(2,398,813)	(2,850)	(106,605,518)
- Revaluation increases	-	-	(8,357,497)	30,039,048	1,186,863	1,066,580	6,386	23,941,380
Disposals	-	(39,750)	(86,870)	(1,126,395)	(427,646)	(251,058)	-	(1,931,719)
Write-offs	-	-	(73,967)	(462,584)	(139,072)	(354,675)	(23,062)	(1,053,360)
Transfers from intangible assets	-	-	-	7,987	-	-	-	7,987
Transfers within property, plant and equipment	-	-	-	946,424	-	-	(4,714,116)	-
Transfers to inventories	-	-	-	-	-	(731,114)	-	(731,114)
Effect of movements in exchange rates	-	-	3,767,692	-	-	-	-	(15,763)
Balance at 31 December 2018	-	5,414,518	120,569,059	207,981,107	12,116,677	9,846,338	3,212,608	359,140,307
Balance at 31 December 2018	-	5,414,518	120,569,059	207,981,107	12,116,677	9,846,338	3,212,608	359,140,307
Recognition of right-of-use assets on initial application of IFRS 16	11,386,767	-	-	-	-	-	-	11,386,767
Adjusted balance at 1 January 2019	11,386,767	5,414,518	120,569,059	207,981,107	12,116,677	9,846,338	3,212,608	370,527,074
Additions	-	-	3,378,903	5,152,712	3,687,951	3,171,556	6,480,884	21,772,006
Transfers from inventories	-	-	-	1,129,847	-	-	-	1,129,847
Disposals	-	-	(15,141)	(3,684,429)	(513,686)	(197,308)	(552,470)	(4,963,034)
Write-offs	-	-	(16,229)	(764,214)	(316,074)	(112,534)	-	(1,209,051)
Transfers within property, plant and equipment	-	-	536,622	5,490,685	-	(7,891)	(6,019,416)	-
Transfers to intangible assets	-	-	-	-	-	-	(2,135,667)	(2,135,667)
Effect of movements in exchange rates	-	-	-	-	20,302	-	3,496	23,798
Balance at 31 December 2019	11,386,767	5,414,518	124,453,214	215,305,708	14,895,170	12,700,161	989,435	385,144,973

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7. Property, plant and equipment, continued

(2) Accumulated depreciation and impairment

	Right-of-use assets	Land	Buildings	Equipment	Vehicles	Furniture and fixtures	Construction in-progress	Total
<i>(In thousands of MNT)</i>								
Accumulated depreciation and impairment								
Balance at 1 January 2018	-	814,575	19,947,934	140,117,326	6,633,530	2,644,320	26,521	170,184,206
Depreciation for the year	-	202,650	5,739,637	22,047,294	2,302,267	3,952,732	3,700	34,248,280
Revaluation	-	-	(4,649,626)	(93,487,742)	(6,066,487)	(2,398,813)	(2,850)	(106,605,518)
- Elimination against gross carrying amount	-	-	589,193	848,276	385,408	129,775	-	1,952,652
- Impairment	-	(17,225)	(85,071)	(900,650)	(135,412)	(66,131)	-	(1,204,489)
Disposals	-	-	(73,967)	(338,068)	(27,761)	(332,459)	-	(772,255)
Write-offs	-	-	-	-	-	(307,906)	-	(307,906)
Transfers to inventories	-	-	-	-	(12,155)	-	(2,315)	(14,470)
Effect of movements in exchange rates	-	-	-	-	-	-	-	-
Balance at 31 December 2018	-	1,000,000	21,468,100	68,286,436	3,079,390	3,621,518	25,056	97,480,500
Balance at 1 January 2019	-	1,000,000	21,468,100	68,286,436	3,079,390	3,621,518	25,056	97,480,500
Depreciation for the year	2,191,795	-	5,752,458	20,049,418	2,054,544	2,084,929	1,211	32,134,355
Disposals	-	-	-	(3,640,146)	(252,167)	(7,656)	-	(3,899,969)
Write-offs	-	-	(15,192)	(584,959)	(25,385)	(80,573)	-	(706,109)
Effect of movements in exchange rates	-	-	-	-	20,017	-	3,496	23,513
Balance at 31 December 2019	2,191,795	1,000,000	27,205,366	84,110,749	4,876,399	5,618,218	29,763	125,032,290
(3) Net book value								
As at 31 December 2018	-	4,414,518	99,100,959	139,694,671	9,037,287	6,224,820	3,187,552	261,659,807
As at 31 December 2019	9,194,972	4,414,518	97,247,848	131,194,959	10,018,771	7,081,943	959,672	260,112,683

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7. Property, plant and equipment, continued

Revaluation

The Group applies the revaluation model for all classes of property, plant and equipment. The fair value of property, plant and equipment which did not form part of the business combination in December 2017 was measured on 1 January 2018 by an independent third party valuation company, PricewaterhouseCoopers Tax & Advisory LLP, with experience in the fixed assets valuation of the beverage industry in Mongolia.

The following table presents the fair value of the revalued property, plant and machinery (principally part of APU JSC and APU Dairy LLC) measured on 1 January 2018 categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*.

<i>(In thousands of MNT)</i>	<i>Fair value measurements as at 1 January 2018 categorised into</i>			
	<i>Fair value at 1 January 2018</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Fair value measurement				
Buildings	64,590,315	-	-	64,590,315
Equipment	124,225,097	-	-	124,225,097
Vehicles	3,244,186	-	3,244,186	-
Furniture and fixtures	2,069,520	-	-	2,069,520
Other assets	964,415	-	-	964,415
Total	195,093,533	-	3,244,186	191,849,347

The following table shows the main valuation techniques used in measuring the fair value of property, plant and equipment:

Type	Valuation techniques
Buildings	<i>Market comparison technique and cost technique:</i> The valuation model considered market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflected adjustments for physical deterioration as well as functional and economic obsolescence.
Equipment	<i>Replacement cost new:</i> Equipment replacement cost new was estimated based on the actual prices from signed contracts, manufacturers and distributors. The contract price method has been applied for the purpose of estimation the replacement cost new of the analysis subject. The contract price method assumes the use of the Producer Price Index change in relation to the initial prices of the assets according to the contracts for the purchases. Indices were applied to the historical cost. Indices were based on the data published by statistical agencies of the manufacturing country.
Vehicles	<i>Market comparison technique:</i> The valuation model considers market prices for similar items when they are available. The applicability of this method is determined by the existence of an active market, since such analysis is based on the availability of information on offer prices.
Furniture and fixtures	<i>Indexation method:</i> Fair value of furniture and fixtures was estimated using the indexation method under the cost approach, which described in Equipment.

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7. Property, plant and equipment, continued

Revaluation, continued

The fair value measurement resulted in total revaluation surpluses of MNT 47,047,991 thousand and total revaluation decreases of MNT 25,059,263 thousand.

A decrease in a carrying amount arising on the revaluation of an item of property, plant and equipment is charged as an expense to the extent that it exceeds the balance held in the revaluation surplus relating to a previous revaluation of that same asset. The total decrease in carrying amount arising on the revaluation of property, plant and equipment charged as an impairment expense in profit or loss was MNT 1,952,652 thousand, as disclosed in Note 19. The total decrease recognised in other comprehensive income to the extent of any credit balances which existed in the revaluation surplus in respect of the related assets was MNT 23,106,611 thousand. The net revaluation surplus after the above recognized in other comprehensive income was MNT 23,941,380 thousand.

Accumulated depreciation as at the revaluation date, 1 January 2018, was eliminated against the gross carrying amount of the asset and the net amount was restated to the revalued amount of the asset.

As part of the valuation of the property, plant and equipment, the valuer assessed the useful lives of the property, plant and equipment, and the accounting useful lives were updated in line with the results of the valuation.

The carrying amounts of property, plant and equipment that would have been recognised had the assets been carried under the cost model, are as follows as at 31 December 2019:

<i>(In thousands of MNT)</i>	2019	2018
Right-of-use assets	9,194,972	-
Land	4,414,518	4,414,518
Buildings	74,284,368	74,313,120
Equipment	111,993,547	113,086,101
Vehicles	10,522,936	9,146,748
Furniture and fixtures	7,548,816	5,873,534
Construction in progress	923,633	3,151,513
	218,882,790	209,985,534

Collateral

During 2018, pledged buildings and equipment were released as collateral to the banks which provided loan facilities to the Group following repayment of those loans. During 2019, the Group had no pledged assets.

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8. Intangible assets and goodwill

Changes in intangible assets and goodwill for the year ended 31 December 2019 are as follows:

<i>(In thousands of MNT)</i>	Goodwill	Trademarks	Customer relationships	Software	Total
(1) Cost					
Balance at 1 January 2018	15,468,093	43,529,128	44,326,850	581,927	103,905,998
Additions	-	-	-	54,507	54,507
Transfers to property, plant and equipment	-	-	-	(7,987)	(7,987)
Balance at 31 December 2018	15,468,093	43,529,128	44,326,850	628,447	103,952,518
Balance at 1 January 2019	15,468,093	43,529,128	44,326,850	628,447	103,952,518
Transfers from property, plant and equipment	-	-	-	2,135,667	2,135,667
Write-offs	-	-	-	(111,841)	(111,841)
Balance at 31 December 2019	15,468,093	43,529,128	44,326,850	2,652,273	105,976,344
(2) Accumulated amortisation					
Balance at 1 January 2018	-	-	-	193,331	193,331
Charge for the year	-	2,176,457	4,432,686	265,262	6,874,405
Balance at 31 December 2018	-	2,176,457	4,432,686	458,593	7,067,736
Balance at 1 January 2019	-	2,176,457	4,432,686	458,593	7,067,736
Charge for the year	-	2,176,457	4,432,686	257,415	6,866,558
Write-offs	-	-	-	(106,987)	(106,987)
Balance at 31 December 2019	-	4,352,914	8,865,372	609,021	13,827,307
(3) Net book value					
Balance at 31 December 2018	15,468,093	41,352,671	39,894,164	169,854	96,884,782
Balance at 31 December 2019	15,468,093	39,176,214	35,461,478	2,043,252	92,149,037

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8. Intangible assets and goodwill, continued

Amortisation

The amortisation of trademarks is allocated to the cost of inventory and is included in "Cost of sales" as inventory is sold; the amortisation of customer relationships is included in "Selling and administrative expenses".

Impairment testing for CGUs containing goodwill

Following the business combination in December 2017 described in Notes 1 and 13, in 2018 the Group completed the fair value assessment of the individual assets acquired and liabilities assumed as part of the Evergreen combination, including the allocation of goodwill to the different business units. The business combination with Evergreen resulted in the recognition of goodwill of MNT 15,468,093 thousand.

Goodwill from this merger of Evergreen and the Company in December 2017 was attributable mainly to synergies expected to be achieved from integrating the acquired businesses into the Group's operation and the related economies of scale from the combined beverages businesses. Goodwill is not deductible for tax purposes.

The Group identified its three main business units as its CGUs, comprising Vodka, Beer, Dairy and juice.

For the purpose of impairment testing, goodwill was allocated to the Group's three CGUs as follows:

<i>(In thousands of MNT)</i>	Carrying amount	
	2019	2018
Goodwill		
Vodka	7,964,332	7,964,332
Beer	7,503,761	7,503,761
Dairy and juice	-	-
	15,468,093	15,468,093

In each of 2019 and 2018, the Group completed its annual impairment test of goodwill and concluded that, based on the assumptions applied, no impairment charge was warranted.

The Group cannot predict whether an event that triggers impairment will occur, when it will occur or how it will affect the value of the asset reported. The Group believes that all of its estimates are reasonable: they are consistent with the Group's internal reporting and reflect management's best estimates. However, inherent uncertainties exist that management may not be able to control.

Goodwill impairment testing relies on a number of critical judgments, estimates and assumptions. Goodwill, which accounted for approximately 3% of the Group's total assets as at 31 December 2019 (2018: 3%), is tested for impairment at the CGU level. The CGU is the lowest level at which goodwill is monitored for internal management purposes. Except in cases where the initial allocation of goodwill has not been concluded by the end of the initial reporting period following the business combination, goodwill is allocated as from the acquisition date to each of the Group's CGUs that are expected to benefit from the synergies of the combination whenever a business combination occurs.

The recoverable amounts of the CGUs were based on their fair value less costs of disposal, estimated using discounted cash flows. The fair value measurement was categorised as a level 3 fair value based on the inputs in the valuation technique used.

8. Intangible assets and goodwill, continued

Impairment testing for CGUs containing goodwill, continued

During its fair value assessment, the Group ran sensitivity analysis for key assumptions including the weighted average cost of capital and the terminal growth rate. While a change in the estimates used could have a material impact on the calculation of the fair values and trigger an impairment charge, the Group, based on the sensitivity analysis performed is not aware of any reasonably possible change in a key assumption used that would cause a CGU's carrying amount to exceed its recoverable amount.

The key judgments, estimates and assumptions used in the discounted cash flow calculations in the Group's 2019 impairment test were generally as follows:

- (i) Cash flows are based on the Group's annual business plan and next three years of the model, cash flows are based on the Group's strategic plan. The Group's annual business plan and strategic plan are prepared by each business unit (CGU) and are based on external sources in respect of macro-economic assumptions, industry, inflation and foreign exchange rates, past experience and identified initiatives in terms of market share, revenue, variable and fixed cost, capital expenditure and working capital assumptions;
- (ii) Projections are discounted at the weighted average cost of capital (WACC), considering sensitivities on this metric;
- (iii) Cost to sell is assumed to reach 2% of the entity value based on historical precedents;
- (iv) The terminal growth rate applied after the first four year period was 4%. The terminal growth rate was determined based on management's estimate of the long-term compound annual cash flow growth rate combined with expectations of long-term consumer price indices; and
- (v) The discount rate applied was 16.2%.

In the sensitivity analysis performed by management, an adverse change of 1% in the discount rate would not cause a CGU's carrying amount to exceed its recoverable amount.

Although the Group believes that its judgments, assumptions and estimates are appropriate, actual results may differ from these estimates under different assumptions or market or macro-economic conditions.

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9. Inventories

Inventories as at 31 December are as follows:

<i>(In thousands of MNT)</i>	31 Dec 2019	31 Dec 2018
Finished goods	26,308,759	20,991,549
Work-in-progress	2,815,083	3,427,220
Raw materials and consumables	21,036,769	16,286,376
Packaging	32,615,369	30,427,102
Supplies inventory	5,848,067	6,832,220
Goods in transit	2,068,322	36,957
Allowance for slow moving and obsolete items	(1,170,827)	(1,211,368)
	89,521,542	76,790,056

In 2019, inventories of MNT 259,599,982 thousand (2018: MNT 246,752,299 thousand) were recognised as an expense during the year and included in 'Cost of sales'.

Movement in the allowance for slow moving and obsolete items:

<i>(In thousands of MNT)</i>	2019	2018
Balance at 1 January	1,211,368	1,300,764
Addition to allowance for slow moving and obsolete items	918,876	618,224
Reversal of allowance	(318,795)	(88,765)
Written off	(640,622)	(618,855)
Balance at 31 December	1,170,827	1,211,368

The impairment loss on slow moving and obsolete items is included in 'Cost of sales'.

10. Prepayments and prepaid expenses

Prepayments and prepaid expenses as at 31 December are as follows:

<i>(In thousands of MNT)</i>	31 Dec 2019	31 Dec 2018
New projects	259,616	609,251
Prepayments for raw materials	7,219,575	8,058,381
Others	1,873,547	2,243,620
	9,352,738	10,911,252

Movement in the allowance for impairment loss on prepayments:

<i>(In thousands of MNT)</i>	2019	2018
Balance at 1 January	-	294,121
Reversal	-	(16,685)
Written-off	-	(277,436)
Balance at 31 December	-	-

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11. Trade and other receivables

(a) Trade and other receivables as at 31 December are summarised as follows:

<i>(In thousands of MNT)</i>	31 Dec 2019	31 Dec 2018
Trade receivables due from third parties	33,793,264	31,776,700
Trade receivables due from related parties (Note 27)	-	56,549
Trade receivables	33,793,264	31,833,249
Other receivables due from related parties (Note 27)	2,417,388	2,354,833
Other taxes receivable	4,496,428	2,005,636
Other receivables due from third parties	1,952,885	1,472,036
Other receivables	8,866,701	5,832,505
Impairment allowance for doubtful accounts	(2,837,189)	(2,677,612)
	39,822,776	34,988,142

(b) The aging of trade and other receivables is summarised as follows:

<i>(In thousands of MNT)</i>	2019		2018	
	Receivable before allowance	Impairment allowance	Receivable before allowance	Impairment allowance
Not past due	22,022,911	(3,653)	25,013,370	(33,021)
Past due less than 30 days	12,002,924	(73,510)	8,572,349	(14,737)
Past due 31-90 days	5,450,036	(114,697)	940,357	(2,951)
Past due 91-180 days	580,172	(167,969)	431,834	(178,280)
Past due 181-365 days	140,868	(121,583)	168,303	(92,926)
Past due more than one year	2,463,054	(2,355,777)	2,539,541	(2,355,697)
	42,659,965	(2,837,189)	37,665,754	(2,677,612)

(c) Changes in allowance for doubtful accounts as at 31 December are summarised as follows:

<i>(In thousands of MNT)</i>	2019	2018
Balance at 1 January	2,677,612	2,436,860
Addition to allowance	328,358	713,202
Reversal of allowance	(158,025)	(108,487)
Write-off of allowance	(10,756)	(363,963)
Balance at 31 December	2,837,189	2,677,612

The Group believes that the outstanding amounts that are past due by more than 30 days are collectible based on analysis of the customers. Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables past due or past due by up to 30 days.

The Group is monitoring the economic environment in Mongolia and is taking actions to limit its exposure to customers experiencing particular financial difficulties. Loss allowances are based on actual credit loss experience of the Group over the past years. The Group also considers the economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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11. Trade and other receivables, continued

The Group determines on each reporting date the impairment of trade and other receivables using a model which estimates the lifetime expected credit losses that will be incurred on these receivables. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

For more information on the Group's credit risk exposure refer to Note 25 (a).

12. Cash and cash equivalents

Cash and cash equivalents as at 31 December are summarised as follows:

<i>(In thousands of MNT)</i>	31 Dec 2019	31 Dec 2018
Cash on hand	2,026,651	2,546,323
Bank balances	48,248,227	58,577,575
Impairment on bank balances	(239,957)	-
	50,034,921	61,123,898

The Group considers that its cash and cash equivalents have low credit risk.

13. Share capital, share premium and reserves

Merger with Evergreen Investments LLC

The merger with Evergreen Investments LLC described in Note 1 was implemented through a series of steps and completed on 22 December 2017 after appropriate approvals were received from the related authorities. During the final step, Evergreen Investments LLC merged into the Group.

The merger resulted in the following equity reorganisation:

On 18 August 2017, shareholders of the Group approved the issuance of 321,305 thousand new ordinary shares to Evergreen Investments LLC's shareholders through a total capital increase of MNT 338,127,000 thousand, comprising MNT 32,130 thousand share capital and MNT 338,094,870 thousand share premium, as deal consideration for the merger with Evergreen Investments LLC.

The price of each new share was MNT 1,052.35 (rounded), whereas the par value of the Group's ordinary shares was MNT 0.1. Evergreen Investments LLC's owners received shares issued by the Group as follows:

<i>(In thousands of shares)</i>	Issuance of new shares (upon merger)	
Shareholders	Number of shares	%
Heineken Asia Pacific Pte. Ltd	266,092	25%
Mongolian Beverage Investments LLC (subsidiary of Shunkhlai Group LLC)	55,213	5.19%
	321,305	30.19%

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13. Share capital, share premium and reserves, continued

a. Ordinary shares authorised and issued

(In thousands of MNT and shares)

	2019		2018	
	Number of shares	Amount	Number of shares	Amount
1 January	1,064,182	106,418	1,064,182	106,418
Share capital increase	-	-	-	-
31 December	1,064,182	106,418	1,064,182	106,418

b. Treasury shares

(In thousands of MNT and shares)

	Issued capital	
	Number of shares	Amount
1 January 2019 and 2018	(1,207)	(121)
Changes during the year	-	-
31 December 2019 and 2018	(1,207)	(121)

Share capital as at 31 December 2018 and 2019 after deducting treasury shares consists of 1,062,975 thousand shares, with a par value of MNT 0.1.

c. Share premium

On 18 August 2017, shareholders of the Group approved the issuance of 321,305 thousand new ordinary shares to Evergreen Investments LLC's shareholders at the price of each new share of MNT 1,052.35. The difference between the new share issuance price and its par value was recorded as share premium, in an amount of MNT 338,094,870 thousand.

d. Merger reserve

The equity shares issued by the Group for its merger with Evergreen is the consideration transferred for this business combination. In measuring the fair value of the equity instrument, the market price of the Group's shares was used, as a Level 1 fair value measurement. The difference between the fair value of the shares issued and the legal registered value of the issued shares was recognised as a Merger Reserve in the amount of MNT 112,795,804 thousand.

e. Dividends

On 19 February 2019, the Group declared dividends of MNT 46 per share (2018: MNT 10 per share), totalling MNT 48,898,753 thousand (2018: MNT 10,629,747 thousand). The Group paid dividends amounting to MNT 77,121,281 thousand to its shareholders in 2019 (2018: MNT 1,101,706 thousand).

f. Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment. A fair value measurement of the Group's property, plant and equipment as at 1 January 2018 was performed by an independent third party valuation company, leading to a net increase in the revaluation reserve of MNT 23,941,380 thousand.

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13. Share capital, share premium and reserves, continued

Movements in the revaluation reserve:

<i>(In thousands of MNT)</i>	2019	2018
Balance at 1 January	102,499,344	78,756,448
Revaluation surplus (Note 7)	-	47,047,991
Revaluation losses recognized in other comprehensive income (Note 7)	-	(23,106,611)
Transfers to retained earnings	(1,041,225)	(198,484)
	101,458,119	102,499,344

Revaluation losses recognized in other comprehensive income in 2018 comprises revaluation losses on previously revalued assets.

14. Trade and other payables

Trade and other payables as at 31 December are summarised as follows:

<i>(In thousands of MNT)</i>	31 Dec 2019	31 Dec 2018
Trade payables due to third parties	10,748,350	11,293,826
Trade payables due to related parties (Note 27)	1,253,430	548,401
Trade payables	12,001,780	11,842,227
Other payables to related parties (Note 27)	73,648	597,394
Other payables to third parties	7,855,448	6,299,423
Taxes payable	11,092,787	13,160,275
Dividends payable (Note 27)	2,376,446	30,598,974
Other payables	21,398,329	50,656,066
	33,400,109	62,498,293

Taxes payable include excise taxes amounting to MNT 9,646,704 thousand and MNT 9,091,359 thousand, and value added taxes amounting to MNT 1,306,721 thousand and MNT 3,655,028 thousand as at 31 December 2019 and 2018, respectively.

15. Revenue

Revenue by types of products for the year ended 31 December 2019 is as follows:

<i>(In thousands of MNT)</i>	2019	2018
Vodka	365,583,016	333,834,103
Beer	223,977,745	209,251,099
Other products	58,202,551	46,468,875
Excise tax expense	(175,129,074)	(163,645,846)
	472,634,238	425,908,231

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16. Cost of sales

Cost of sales by types of products for the year ended 31 December 2019 is as follows:

<i>(In thousands of MNT)</i>	2019	2018
Vodka	116,763,355	114,120,001
Beer	92,776,969	87,120,213
Other products	50,659,739	46,041,544
	260,200,063	247,281,758

17. Selling and administrative expenses

Details of selling and administrative expenses for the year ended 31 December 2019 are as follows:

<i>(In thousands of MNT)</i>	2019	2018
Wages and remuneration	34,463,535	29,109,637
Depreciation and amortization	16,184,493	15,879,307
Distribution	15,674,399	15,805,889
Professional and other service fees	12,420,807	12,805,500
Marketing and advertising	9,072,517	12,626,114
Social insurance premium	3,393,309	2,417,840
Transportation	2,944,739	1,963,797
Repairs and maintenance	2,874,337	2,740,800
Rental and leases	2,237,994	3,887,432
Business trips	1,923,867	1,355,736
Communications	1,473,356	773,038
Insurance	959,763	1,139,544
HR and trainings	887,394	932,207
Food materials	746,444	912,856
Research and development	726,760	473,058
Utilities	618,794	604,365
Occupational safety	523,684	735,673
License fees	293,372	-
Others	5,032,255	3,677,639
	112,451,819	107,840,432

18. Other income

Details of other income for the year ended 31 December 2019 are as follows:

<i>(In thousands of MNT)</i>	2019	2018
Rental	268,583	248,376
Gain on disposal of property, plant and equipment	197,345	500
Income from sale of by-products	1,343,671	1,648,650
Other	1,318,813	1,686,529
	3,128,412	3,584,055

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19. Other expenses

Details of other expenses for the year ended 31 December 2019 are as follows:

<i>(In thousands of MNT)</i>	2019	2018
Cost from sale of by-products	1,073,044	1,407,406
Loss on write-off of property, plant and equipment	502,942	281,105
Penalties and fees	473,358	51,130
Loss on disposal of property, plant and equipment	255,885	48,765
Other employee benefits	27,958	21,542
Loss on write-off of intangible assets	4,854	-
Impairment loss on property, plant and equipment	-	1,952,652
Other	967,443	765,595
	3,305,484	4,528,195

20. Finance income

Details of finance income for the year ended 31 December 2019 are as follows:

<i>(In thousands of MNT)</i>	2019	2018
Interest income	1,728,328	1,822,207
	1,728,328	1,822,207

21. Finance costs

Details of finance costs for the year ended 31 December 2019 are as follows:

<i>(In thousands of MNT)</i>	2019	2018
Interest expense on loans	-	3,179,756
Interest expense on lease liabilities (Note 23)	2,203,914	-
Foreign exchange loss, net	371,597	1,912,163
	2,575,511	5,091,919

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22. Income taxes

(i) Income taxes recognised for the year ended 31 December 2019 are as follows:

<i>(In thousands of MNT)</i>	2019	2018
Current tax expense	25,298,507	13,843,490
Deferred tax (benefit) expense	(2,863,591)	3,881,420
	22,434,916	17,724,910

According to Mongolian Tax Laws, the Group has an obligation to pay Government Corporate Income Tax of 10% (2018: 10%) on the portion of taxable profits up to MNT 3 billion and 25% (2018: 25%) on the portion of taxable profits above MNT 3 billion, if the Group earns revenue from operating activities. Since 2020, under new tax legislation, a 10% tax rate is applied for taxable profits up to MNT 6 billion and 25% on the portion of taxable profits above MNT 6 billion.

According to Russian Corporate Income Tax Law, the corporate tax rate is 20% (2018: 20%). Tax payments are split into federal part (2%) and regional part (18% that can be reduced to 13.5% for some categories of taxpayers).

According to Singaporean Corporate Income Tax Law, the headline corporate tax rate is 17% and the companies are eligible for partial tax exemption which effectively translates to 8.5% tax rate on taxable income of up to SGD 300,000 per financial year.

(ii) Reconciliation of the effective tax rate is as follows:

<i>(In thousands of MNT)</i>	2019	2018
Profit before tax	98,547,811	65,967,474
Tax using the Group's statutory tax rate of 25%	24,636,953	16,491,869
Effect of tax rates in foreign jurisdiction	11,475	5,921
Effect of non-deductible expenses	1,160,899	2,633,368
Effect of non-taxable income	(432,082)	(455,552)
Effect of progressive tax rate of 10% on the portion of taxable profits up to MNT 3 billion	(2,574,216)	(1,922,406)
Current year losses for which no deferred tax is recognised	911,659	1,299,515
Derecognition of previously recognised temporary differences following group restructuring	(817,244)	-
Change in effective tax rates	(635,361)	(510,026)
Tax using special tax rate of 10%	172,833	182,221
Income tax for the year	22,434,916	17,724,910

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22. Income taxes, continued

(iii) Changes in deferred tax assets (liabilities) for the year ended 31 December 2019 are as follows:

(In thousands of MNT)

	2019			
	Beginning balance	Profit or loss	Changes in exchange rate	Ending balance
Unrealised foreign exchange losses	35,163	18,892	-	54,055
Unrealised foreign exchange gains	-	(24,578)	-	(24,578)
Prepayments	(29,898)	29,898	-	-
Accruals	587,811	(524,369)	-	63,442
Intangible assets	(20,311,709)	1,652,285	-	(18,659,424)
Property, plant and equipment	528,601	(315,953)	-	212,648
Property, plant and equipment	(2,613,035)	1,913,281	-	(699,754)
Carry-forward tax losses	138,206	114,135	22,559	274,900
	(21,664,861)	2,863,591	22,559	(18,778,711)

(In thousands of MNT)

	2018			
	Beginning balance	Profit or loss	Changes in exchange rate	Ending balance
Unrealised foreign exchange losses, net	5,696,799	(5,661,636)	-	35,163
Prepayments	(162,922)	133,024	-	(29,898)
Accruals	256,070	331,741	-	587,811
Intangible assets	(21,963,994)	1,652,285	-	(20,311,709)
Property, plant and equipment	181,434	347,167	-	528,601
Property, plant and equipment	(1,929,034)	(684,001)	-	(2,613,035)
Carry-forward tax losses	153,190	-	(14,984)	138,206
	(17,768,457)	(3,881,420)	(14,984)	(21,664,861)

(iv) The aggregate amounts of deferred tax assets and liabilities, and current tax assets and liabilities before offsetting are as follows:

(In thousands of MNT)

	2019	2018
Deferred tax assets	605,045	1,289,781
Deferred tax liabilities	(19,383,756)	(22,954,642)
Current tax assets (liabilities), net	2,590,158	(3,800,067)

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by tax authorities.

Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible the transactions and activities that have not been challenged in the past may be challenged by the tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for four (until 2019: five) calendar years preceding the year when decisions about the review was made. Under certain circumstances reviews may cover longer periods.

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22. Income taxes, continued

Mongolian transfer pricing (TP) legislation effective from 1 January 2020 is generally aligned with the international TP principles developed by the Organization for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. The management has implemented a plan and procedures to comply with current TP legislation.

As Mongolian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that an outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

23. Leases

See accounting policy in Note 6 (j).

Leases as lessee (IFRS 16)

The Group leases a number of assets including a restaurant, an office and factory facilities, the contracts for which run for a period of one to ten years, with options to renew the leases after these dates. Lease payments are renegotiated upon renewal. The Group has elected not to recognise right-of-use assets and liabilities for short-term and/or leases of low-value items.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to leased premises that are presented within property and equipment (Note 7).

<i>(In thousands of MNT)</i>	2019
Balance at 1 January	11,386,767
Depreciation charge for the year	(2,191,795)
Balance at 31 December	9,194,972

ii. Amounts recognised in profit or loss

<i>(In thousands of MNT)</i>	Total
2019 – Leases under IFRS 16	
Interest on lease liabilities (Note 21)	2,203,914
Expenses relating to short-term and low value leases	2,237,994
2018 – Operating leases under IAS 17	
Lease expense	5,468,719

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23. Leases, continued

iii. Amounts recognised in statement of cash flows

(In thousands of MNT)

Total cash outflow for leases

2019

3,445,733

Some property leases contain extension options exercisable by the Group. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

24. Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for the other stakeholders. The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns and the advantages and security afforded by a sound capital position.

In 2019 and 2018 the Group has not been subject to externally imposed capital requirements as the Group fully repaid its loans from external lenders EBRD and Credit Suisse in 2018.

25. Financial instruments

Financial risk management

Overview

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management Standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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25. Financial instruments, continued

Financial risk management, continued

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

<i>(In thousands of MNT)</i>	Carrying amount	
	2019	2018
Current:		
Trade and other receivables*	35,326,348	32,982,506
Bank balances	48,008,270	58,577,575
	83,334,618	91,560,081

*excludes taxes receivable of MNT 4,496,428 thousand in 2019 and MNT 2,005,636 thousand in 2018.

Impairment losses on financial assets recognised in profit or loss were as follows:

<i>(In thousands of MNT)</i>	2019	2018
Impairment loss on trade and other receivables	328,358	713,202
Impairment loss on bank balances	239,957	-
Reversal of impairment loss on trade and other receivables	(158,025)	(108,487)
	410,290	604,715

Trade and other receivables

The Group's management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Under these policies all customers requiring credit above a certain amount are reviewed and new customers are analysed individually for creditworthiness before the Group's payment and delivery terms and conditions are offered. Credit limits are determined for each customer and are reviewed regularly. Customers that fail to meet the Group's credit requirements transact only with the Group on a prepayment basis or cash paid on delivery.

Customers are monitored according to their credit risk characteristics, including whether they are an individual or legal entity, type of distribution channel, location, ageing profile, maturity and existence of previous financial difficulties.

The Group requires collateral in respect of wholesaler and contract customers. The Group does not have trade receivables for which no allowance is recognized because of collateral.

APU Joint Stock Company and Subsidiaries
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25. Financial instruments, continued

Financial risk management, continued

(a) Credit risk, continued

Trade and other receivables, continued

The maximum exposure to credit risk for trade and other receivables (excluding taxes) at the reporting date by geographic region was as follows:

<i>(In thousands of MNT)</i>	Carrying amount	
	2019	2018
Domestic	34,646,731	32,345,730
Foreign	679,617	636,776
	35,326,348	32,982,506

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of counterparty was:

<i>(In thousands of MNT)</i>	Carrying amount	
	2019	2018
Wholesale and retail customers	29,622,337	28,007,221
Other customers	1,333,738	1,148,416
Other receivables	4,370,273	3,826,869
	35,326,348	32,982,506

Expected credit loss (ECL) assessment as at 31 December 2019

The Group establishes allowances for impairment of trade and other receivables using an expected credit losses model. These allowances cover specific loss components that relate to individual exposures, and a collective loss component established for groups of similar customers.

The collective loss allowance is determined based on historical data of payment statistics and updated periodically to incorporate forward looking information. The trade and other receivables are written off when there is no reasonable expectation of recovery.

The following tables provides information about the exposure to credit risk and ECLs for trade and other receivables.

(In thousands of MNT)

31 December 2019	Gross carrying amount	Loss allowance	Credit-impaired
Not past due	17,526,483	(3,653)	0.02%
Past due less than 30 days	12,002,924	(73,510)	0.61%
Past due 31-90 days	5,450,036	(114,697)	2.10%
Past due 91-180 days	580,172	(167,969)	28.95%
Past due 181-365 days	140,868	(121,583)	86.31%
Past due more than one year	2,463,054	(2,355,777)	95.64%
	38,163,537	(2,837,189)	7.43%

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25. Financial instruments, continued

Financial risk management, continued

(a) Credit risk, continued

Expected credit loss (ECL) assessment as at 31 December 2019, continued

(In thousands of MNT)

31 December 2018	Gross carrying amount	Loss allowance	Credit-impaired
Not past due	23,007,734	(33,021)	0.14%
Past due less than 30 days	8,572,349	(14,737)	0.17%
Past due 31-90 days	940,357	(2,951)	0.31%
Past due 91-180 days	431,834	(178,280)	41.28%
Past due 181-365 days	168,303	(92,926)	55.21%
Past due more than one year	2,539,541	(2,355,697)	92.76%
	35,660,118	(2,677,612)	7.51%

Movements in the allowance for impairment in respect of trade and other receivables

The movement in the allowance for impairment in respect of bank balances, trade and other receivables during the year was as follows.

(In thousands of MNT)

	2019	2018
Balance at 1 January	2,677,612	2,436,860
Amounts written-off	(10,756)	(363,963)
Addition to allowance for doubtful accounts	568,315	713,202
Reversal of allowance for doubtful accounts	(158,025)	(108,487)
Balance at 31 December	3,077,146	2,677,612

Trade and other receivables with a contractual amount of MNT 10,756 thousand (2018: 363,963 thousand) written off during the year are subject to enforcement activity.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

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25. Financial instruments, continued

Financial risk management, continued

(b) Liquidity risk, continued

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

As at 31 December 2019

<i>(In thousands of MNT)</i>	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	Over 2 years
Trade and other payables	19,930,876	19,930,876	19,930,876	-	-	-
Lease liabilities	10,122,232	14,994,038	1,800,449	1,800,449	3,800,900	7,792,240
Dividends payable	2,376,446	2,376,446	2,376,446	-	-	-
	32,429,554	37,301,360	24,107,771	1,800,449	3,800,900	7,792,240

*excludes taxes payable of MNT 11,092,787 thousand in 2019.

As at 31 December 2018

<i>(In thousands of MNT)</i>	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years
Trade and other payables	18,739,044	18,739,044	17,191,056	1,547,988	-
Dividends payable-undefined	30,598,974	30,598,974	-	-	-
	49,338,018	49,338,018	17,191,056	1,547,988	-

*excludes taxes payable of MNT 13,160,275 thousand in 2018.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group does not use derivatives to manage market risks.

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group, MNT. The currencies in which these transactions are primarily denominated are US Dollars (USD), Euro (EUR), Chinese Yuan (CNY) and Russian Ruble (RUB).

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25. Financial instruments, continued

Financial risk management, continued

(c) Market risk, continued

Currency risk, continued

(i) Exposure to currency risk

As at 31 December 2019

<i>(In thousands of MNT)</i>	USD	EUR	CNY	RUB	Other
Trade and other receivables	657,319	63,217	487,668	1,236,591	-
Cash and cash equivalents	4,058,627	71,068	214,367	349,090	5,870
Trade and other payables	(5,928,791)	(1,621,919)	(1,170,725)	(343,557)	(102,708)
	(1,212,845)	(1,487,634)	(468,690)	1,242,124	(96,838)

As at 31 December 2018

<i>(In thousands of MNT)</i>	USD	EUR	CNY	RUB	Other
Trade and other receivables	635,622	81,819	47,316	1,162,529	9,700
Cash and cash equivalents	1,793,183	152,410	315,555	156,650	424,439
Trade and other payables	(4,711,019)	(3,549,672)	(2,594,895)	(613,954)	(119,552)
	(2,282,214)	(3,315,443)	(2,232,024)	505,225	314,587

The following significant exchange rates were applied during the year.

<i>(In MNT)</i>	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
USD	2,664	2,473	2,734	2,643
EUR	2,982	2,919	3,061	3,029
CNY	386	374	391	386
RUB	41	40	44	38

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25. Financial instruments, continued

Financial risk management, continued

(c) Market risk, continued

Currency risk, continued

(ii) Sensitivity analysis (before tax)

A strengthening (weakening) of the MNT against the USD, EUR, CNY and RUB at 31 December, would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

(In thousands of MNT)

	Profit (Loss) before tax	
	Strengthening	Weakening
31 December 2019		
USD (5% movement)	60,642	(60,642)
EUR (5% movement)	74,382	(74,382)
CNY (5% movement)	23,435	(23,435)
RUB (5% movement)	(62,106)	62,106
31 December 2018		
USD (5% movement)	114,111	(114,111)
EUR (5% movement)	95,271	(95,271)
CNY (5% movement)	111,601	(111,601)
RUB (5% movement)	(25,261)	25,261

(d) Interest rate risk

At the reporting date, the Group had no interest-bearing financial loan instruments.

(In thousands of MNT)

	Carrying amount	
	2019	2018
Fixed rate instruments		
Financial liabilities	-	-
Variable rate instruments		
Financial liabilities	-	-
	-	-

(e) Fair values

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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25. Financial instruments, continued

Financial risk management, continued

(e) Fair values, continued

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability; either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having short term maturity (less than one year), it is assumed that the carrying amounts approximate to their fair value due to their short term to maturity.

Financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments.

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

<i>(In thousands of MNT)</i>	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised cost				
Trade and other receivables	35,326,348	35,326,348	32,982,506	32,982,506
Cash and cash equivalents	50,034,921	50,034,921	61,123,898	61,123,898
	85,361,269	85,361,269	94,106,404	94,106,404
Liabilities carried at amortised cost				
Trade and other payables	22,307,322	22,307,322	49,338,018	49,338,018
	22,307,322	22,307,322	49,338,018	49,338,018

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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25. Financial instruments, continued

Financial risk management, continued

(e) Fair values, continued

Transfers between levels

There were no transfers between levels 1 to 3 of the fair value hierarchy for the assets and liabilities which are recorded at fair value.

26. Non-controlling interest

As of 31 December 2019 and 2018, non-controlling interests relate to Spirt Bal Buram LLC, a subsidiary in which the Group has 100% and 97.2% ownership in 2019 and 2018, respectively. The following table summarises the information relating to Spirt Bal Buram LLC, before any intra-group eliminations.

<i>(In thousands of MNT)</i>	2019	2018
Non-current assets	-	55,081,546
Current assets	-	24,578,276
Non-current liabilities	-	(7,482,036)
Current liabilities	-	(11,742,245)
Net assets	-	60,435,541
Net assets attributable to NCI	-	1,731,044
Revenue	16,588,221	48,064,130
Profit for the year	1,333,126	3,358,697
Total comprehensive income	1,333,126	3,358,697
Profit attributable to NCI	50,406	89,266
Cash flows from operating activities	1,038,973	8,130,480
Cash flows from investing activities	(47,717)	(504,229)
Cash flows from financing activities	(592)	(10,577,369)
Net increase (decrease) in cash and cash equivalents	990,664	(2,951,118)

Acquisition of NCI

In May 2019, the Group acquired an additional 2.8% interest in Spirt Bal Buram LLC, increasing its ownership from 97.2% to 100%. The carrying amount of Spirt Bal Buram LLC's net assets in the Group's consolidated financial statements on the date of the acquisition was MNT 63,566,459 thousand.

<i>(In thousands of MNT)</i>	Amount
Carrying amount of NCI acquired (MNT 63,566,459 x 2.8025%)	1,781,450
Cash consideration paid to NCI in current year	(57,686)
Cash consideration paid to NCI in previous years	(303,662)
Increase in equity attributable to owners of the Company	1,420,102

The increase in equity attributable to owners of the Company comprised an increase in retained earnings of MNT 1,420,102 thousand.

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27. Related parties

(a) As at 31 December 2019, the main related parties to the Group are as follows:

Name of party	Relationship at 31 December 2019
a. Ultimate controlling party and main direct shareholders	
Shunxhlai Group LLC	Ultimate controlling party, directly owns 50.84%
Heineken Asia Pacific Pte Ltd	Shareholder, owns 25%
Steppe Beverage KFT	Shareholder, owns 13.42%
Mongolian Beverage Investments LLC	Subsidiary of Shunxhlai Group LLC and 5.19% owner of the Group
Zennor International Ltd (BVI)	Shareholder, owns 0.2%
b. Associated companies and others (*)	
Capital Group LLC	100% owned by the Company's Chairman
Shunxhlai LLC	Subsidiary of Shunxhlai Group LLC
Shunxhlai Trading LLC	Subsidiary of Shunxhlai Group LLC
Shunxhlai Petroleum LLC	Subsidiary of Shunxhlai Group LLC
Shunxhlai Gobi LLC	Subsidiary of Shunxhlai Group LLC
Kia Motors Mongolia LLC	Subsidiary of Shunxhlai Group LLC
Hyundai Motors Mongolia LLC	Subsidiary of Shunxhlai Group LLC
Media Group LLC	Subsidiary of Shunxhlai Group LLC
NTV Broadcasting LLC	Subsidiary of Shunxhlai Group LLC
Public Media LLC	Subsidiary of Shunxhlai Group LLC
Amilan. E LLC	Subsidiary of Shunxhlai Group LLC
Monzakh LLC	Subsidiary of Shunxhlai Group LLC
Suntrans Logistics LLC	Subsidiary of Shunxhlai Group LLC
GSB Resource LLC	Subsidiary of Shunxhlai Group LLC
GSB Mining LLC	Subsidiary of Shunxhlai Group LLC
Shunxhlai Mining LLC	Subsidiary of Shunxhlai Group LLC
Shunxhlai Mining Cayman LLC	Subsidiary of Shunxhlai Group LLC
Power Unit LLC	Subsidiary of Shunxhlai Group LLC
Mongol Motor Group LLC	Subsidiary of Shunxhlai Group LLC
Golden Chance LLC	Subsidiary of Shunxhlai Group LLC
Mongol Hyundai Kia Service LLC	Subsidiary of Shunxhlai Group LLC
Kohlbeker MNG LLC	Subsidiary of Shunxhlai Group LLC
Great Empire LLC	Subsidiary of Capital Group LLC
Wan Trade LLC	Subsidiary of Capital Group LLC
Altan Uguumur LLC	Subsidiary of Shunxhlai Group LLC
SD Service LLC	Subsidiary of Shunxhlai Group LLC
Suren Alt LLC	Subsidiary of Shunxhlai Group LLC

APU Joint Stock Company and Subsidiaries
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27. Related parties, continued

(a) As at 31 December 2019, the main related parties to the Group are as follows, continued:

Name of party	Relationship at 31 December 2019
b. Associated companies and others (*)	
Barilgiin Birj LLC	Subsidiary of Shunkhlai Group LLC
S Development LLC	Subsidiary of Shunkhlai Group LLC
SBTM LLC	Subsidiary of Shunkhlai Group LLC
PDRS LLC	Subsidiary of Shunkhlai Group LLC
DSG LLC	Subsidiary of Shunkhlai Group LLC
SD Engineering and Construction LLC	Subsidiary of Shunkhlai Group LLC
Borshoon Buyant LLC	Subsidiary of Shunkhlai Group LLC
Ulaanbaatar Cinema LLC	Joint venture of Shunkhlai Group LLC
Skytel LLC	Joint venture of Shunkhlai Group LLC
Skymedia LLC	Joint venture of Shunkhlai Group LLC
GSB Capital NBFi LLC	Subsidiary of Shunkhlai Group LLC
International Medical Center LLC	Associate of Shunkhlai Group LLC
Bayanteeg LLC	Associate of Shunkhlai Group LLC
Mongol Daatgal LLC	Related party through key management
Blue Sky Cashmere LLC	Related party through key management
Gofro LLC	Related party through key management
Daamai Consulting LLC	Related party through key management
River Bakery LLC	Related party through key management
Chinggis Khan Bank	Related party through key management
Bat Gan Agro LLC	Related party through key management
Heineken Company Timor-Leste	Related party through Heineken Asia Pacific Pte.Ltd
Heineken Myanmar LTD	Related party through Heineken Asia Pacific Pte.Ltd
Heineken Supply Chain BV	Related party through Heineken Asia Pacific Pte.Ltd
Heineken International B.V.	Related party through Heineken Asia Pacific Pte.Ltd
Heineken United Brewery LLC	Related party through Heineken Asia Pacific Pte.Ltd
AB Heineken Philippines Inc.	Related party through Heineken Asia Pacific Pte.Ltd
Heineken Global Shared Services Sp. z o.o.	Related party through Heineken Asia Pacific Pte.Ltd

(*) Other related parties which had no transactions with the Group are excluded from the related party list.

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27. Related parties, continued

(b) Related party transactions

(In thousands of MNT)

	Transaction value	
	2019	2018
Revenue and cost of sales		
- Sales to other related parties	707,747	675,434
- Purchase of goods and services from other related parties	26,188,822	20,747,748
Other income		
- Rental income - other related parties	94,116	120,701
- Security services - other related parties	-	36,000
- Interest and other income - other related parties	88,871	194,982
Other expenses		
- Management fees - shareholders	4,545,455	4,545,455
- Insurance - other related parties	1,178,000	368,290
- Selling and distribution expenses - other related parties	-	2,606,207
- Other expenses - other related parties	1,587,418	1,781,072
Other transactions		
- Lease payments - other related parties	3,087,273	2,819,829
- Dividends declared	48,896,850	10,629,747
- Dividends paid	77,121,281	1,101,706
Transactions with key management personnel		
- BOD members	748,059	746,833
- Executive management	4,606,978	3,713,158
Purchases of property, plant and equipment		
- Other related parties	824,454	618,861

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27. Related parties, continued

(c) Related parties outstanding balances

(In thousands of MNT)

	Balance outstanding	
	2019	2018
Receivables		
- Shareholders	1,320	-
- Other related parties	2,416,068	2,411,382
Prepayments		
- Other related parties	441,994	120,663
Trade and other payables		
- Shareholders	-	49,002
- Other related parties	1,327,078	1,096,793
Lease liabilities		
- Other related parties	8,638,737	-
Dividend payables		
- Shareholders	2,376,446	30,598,974

28. Nature of expenses

Details of nature of expenses for the year ended 31 December 2019 are as follows:

(In thousands of MNT)

	Changes in inventories		Cost of sales		Selling and administrative expenses		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Changes in inventories	(12,731,486)	(5,309,694)	-	-	-	-	(12,731,486)	(5,309,694)
Employee benefits expense	-	-	15,391,899	13,701,674	37,856,844	31,527,477	53,248,743	45,229,151
Depreciation and amortisation	-	-	22,816,420	25,243,378	16,184,493	15,879,307	39,000,913	41,122,685
Inventory and others	-	-	<u>234,723,230</u>	<u>213,646,400</u>	<u>58,410,482</u>	<u>60,433,648</u>	<u>293,133,712</u>	<u>274,080,048</u>
	<u>(12,731,486)</u>	<u>(5,309,694)</u>	<u>272,931,549</u>	<u>252,591,452</u>	<u>112,451,819</u>	<u>107,840,432</u>	<u>372,651,882</u>	<u>355,122,190</u>

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29. Finance income and costs by categories

Finance income and costs by categories for the year ended 31 December 2019 are as follows:

<i>(In thousands of MNT)</i>	Carrying amount	
	2019	2018
Assets carried at amortised cost		
Interest income (Note 20)	1,728,328	1,822,207
Foreign exchange (gains) losses, net	420,392	(149,421)
Liabilities carried at amortised cost		
Interest expense (Note 21)	2,203,914	3,179,756
Foreign exchange losses (gains), net	791,989	2,061,584

30. Operating segments

(1) Basis for segmentation

The Group has the following strategic divisions, which are its reportable segments. These divisions offer different products, and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment:

Reportable segments	Operations and key brands in 2019
Vodka	Manufacturing and selling vodka. Key brands are Arkhi, Bolor, Eruul, Ulaanbaatar, Soyombo, Black Pearl, Altan Turuu, Chinggis Khan, Alpha, Velvet, Eden, Taiga, Okhi, Viva, Evok, Sarkhad, Suld, Titem, Kharaa and Chinggis.
Beer	Brewing and selling beer. Key brands are Niislel, Borgio, Seruun, Altan Gobi, Khar Khorin, Chinggis Khaan, Kaltenberg, Guinness Draught, Tri medvedya, Heineken, Sengur, Tiger, Jalam Khar and Legend.
Others	Manufacturing and selling non-alcoholic beverages. Key brands are Tereij, Selenge, Frutta, Pure water, Orgiluun, Sain, Maamuu, Deej. Importing and selling wine. Key brands are Cheteau, Grande, La Chamiza, Mi Pueblo, Variatels and Vitral.

The Group's management reviews the internal management reports of each segment at least quarterly.

Other operations in 2019 comprise the production and sales of wine, non-alcoholic beverages and dairy products. None of these segments met the quantitative thresholds for reportable segments in 2019 and 2018.

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30. Operating segments, continued

(2) Information about reportable segments

Information related to each reportable segment is set out below. Segment revenue is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

(In thousands of MNT)

	Vodka		Beer		Other segments		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenue	218,004,104	196,744,377	196,427,583	182,694,979	58,202,551	46,468,875	472,634,238	425,908,231
Reportable segment gross profit	101,240,749	82,624,376	103,650,614	95,574,766	7,542,812	427,331	212,434,175	178,626,473
Depreciation and amortisation	(12,562,266)	(13,868,429)	(18,035,050)	(19,970,493)	(8,403,597)	(7,283,763)	(39,000,913)	(41,122,685)
<i>Other material non-cash items:</i>								
Impairment loss on financial assets	(189,248)	(341,875)	(170,517)	(214,031)	(50,525)	(48,809)	(410,290)	(604,715)
Impairment loss on non-financial assets	(295,972)	(867,016)	(424,912)	(1,248,500)	(197,992)	(455,360)	(918,876)	(2,570,876)
Reportable segment profit before income tax	50,129,893	34,740,863	51,224,491	40,121,921	(1,754,615)	(5,822,844)	99,599,769	69,039,940

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30. Operating segments, continued

(3) Reconciliation of profit before income tax on reportable segments to IFRS measures.

<i>(In thousands of MNT)</i>	2019	2018
Total profit before income tax for reportable segments	99,599,769	69,039,940
Unallocated amounts:		
- Rental income	268,583	248,376
- Interest income	1,728,328	1,822,207
- Foreign exchange loss, net	(371,597)	(1,912,163)
- Interest expense	(2,203,914)	(3,179,756)
- Penalties and fees	(473,358)	(51,130)
Profit before income tax	98,547,811	65,967,474

31. Earnings per share

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding:

(a) Profit attributable to ordinary shareholders

<i>(In thousands)</i>	2019	2018
Profit for the year	76,062,489	48,153,298
Weighted-average number of ordinary shares outstanding	1,062,975	1,062,975
Basic earnings per share	71.6	45.3

(b) Weighted average number of ordinary shares

<i>(In thousands of shares)</i>	2019	2018
Issued ordinary shares at 1 January	1,064,182	1,064,182
Effect of treasury shares held	(1,207)	(1,207)
Weighted average number of ordinary shares	1,062,975	1,062,975

32. Financial commitments and contingencies

(1) Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

APU Joint Stock Company and Subsidiaries
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32. Financial commitments and contingencies, continued

(2) Lease commitments

The Group as lessee has entered into leases of a restaurant, an office and factory facilities. The leases have no purchase option or escalation clauses included in the agreements. There are no restrictions placed upon the Group by entering these leases.

Minimum lease commitments that the Group would pay under the lease agreements with initial terms of one year or more at 31 December 2018 were as follows:

<i>(In thousands of MNT)</i>	31 Dec 2018
Within a year	5,682,293
1-6 years	2,204,291
	<u>7,886,584</u>

33. Events after the reporting period

Dividends

On 14 February 2020, the Board of Directors of the Group declared a dividend of MNT 71 per share, which totals MNT 75,556,890 thousand.

Acquisitions

On 14 February 2020, the Board of Directors of the Group resolved to acquire a 39% interest in Digital Concept LLC, a wholly owned subsidiary of Shunkhlai Group LLC, for cash consideration of MNT 16,468,000 thousand. The transaction is expected to be completed in June 2020.

On 14 February 2020, the Board of Directors of the Group resolved to acquire immovable property together with its land rights from Borshoon Buyant LLC, a wholly owned subsidiary of Shunkhlai Group LLC, for consideration of MNT 25,000,000 thousand. The purchase is expected to be completed in April 2020.

COVID-19

Due to the COVID-19 outbreak globally, various governments across the world including in Mongolia, have put in place preventative restrictions, which significantly affect economic activity and commerce. As a result, economies in many countries, including Mongolia, have been experiencing significant slow-downs and related adverse effects.

As part of the preventive measures, in Mongolia the emergency state commission stopped coal transportation to China for approximately one month in February and March 2020 and increased the inspections at the country's borders. Slower logistics, restrictions on the movement of people and reduced working hours for businesses, are some of the changes impacting the country's economy. Consequential impacts for the Group may include reduced sales due to restrictions on openings of bars, restaurants and clubs, limitations on opening hours of retailers and other beverage outlets and increased defaults by the Group's customers, among others. At the time of issuing the consolidated financial statements, the full impact of COVID-19 remains uncertain, and the potential implications of these events for the Group will only be realized with time.