

GOBI
MONGOLIAN CASHMERE



ANNUAL REPORT

2023

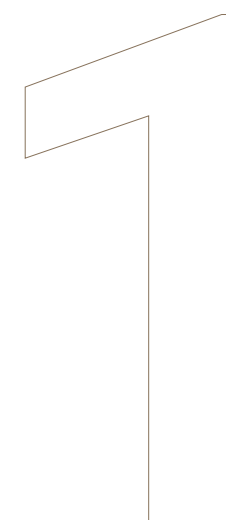
GOBI
JOINT-STOCK
COMPANY

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OUR COMPANY





COMPANY INTRODUCTION

Company name	"GOBI" Joint Stock Company										
Business operation	Processing, manufacturing, and selling of finished goods and garments from goat cashmere										
Official address	GOBI JSC, Industrial Street, 3rd khoroo, Khan-Uul district, Ulaanbaatar-17062, Mongolia Postal address: Ulaanbaatar-17062, PO Box 36/434, GOBI JSC Telephone: (976)-70139977 Fax: (976)-70143081 E-mail: info@gobi.mn Website: info.gobi.mn; gobicashmere.com Facebook: Gobi Cashmere Online stores: Domestic: gobi.mn International: gobicashmere.com										
Registered trading entity	Mongolian Stock Exchange										
Total number of issued shares	780,112,500										
Company management	Chairwoman of the Board: GERELMAA Damba Chief Executive Officer: BAATARSAIKHAN Tsagaach										
Date of foundation	September 5th, 1981										
Total number of employees	1,765										
Factory capacity	-Processing of 1,150 tons of raw cashmere -Production of 1,050 tons of spun yarn and 30 tons of fine spun yarn -Production of 1,500,000 pieces of knitwear -Production of 640,000 pieces of textiles -Production of 162,000 garments										
Branch store	<table border="0"> <tr> <td>Domestic</td> <td>International</td> </tr> <tr> <td>Ulaanbaatar 2</td> <td>Subsidiary 5</td> </tr> <tr> <td>Darkhan city 1</td> <td>Branch store 2</td> </tr> <tr> <td>Online store 1</td> <td>Franchise store 21</td> </tr> <tr> <td></td> <td>Online store 13</td> </tr> </table>	Domestic	International	Ulaanbaatar 2	Subsidiary 5	Darkhan city 1	Branch store 2	Online store 1	Franchise store 21		Online store 13
Domestic	International										
Ulaanbaatar 2	Subsidiary 5										
Darkhan city 1	Branch store 2										
Online store 1	Franchise store 21										
	Online store 13										



VISION

We make cashmere a lifestyle

MISSION

We provide everyone with stylish, affordable, and quality cashmere

SLOGAN

Cashmere for All

VALUES



RESPECT



We embrace diversity and exchange ideas with respect and dignity.



PASSION & AUTHENTICITY



We are a team, full of passion and sincerity to achieve our goals.



HONESTY & TRANSPARENCY



We value the equal participation of all parties and embrace the transparency of our operations



EXCELLENCE & RESPONSIBILITY



We value our responsibility towards the environment, society, and the results of our actions as well as our goal of sustainable development.

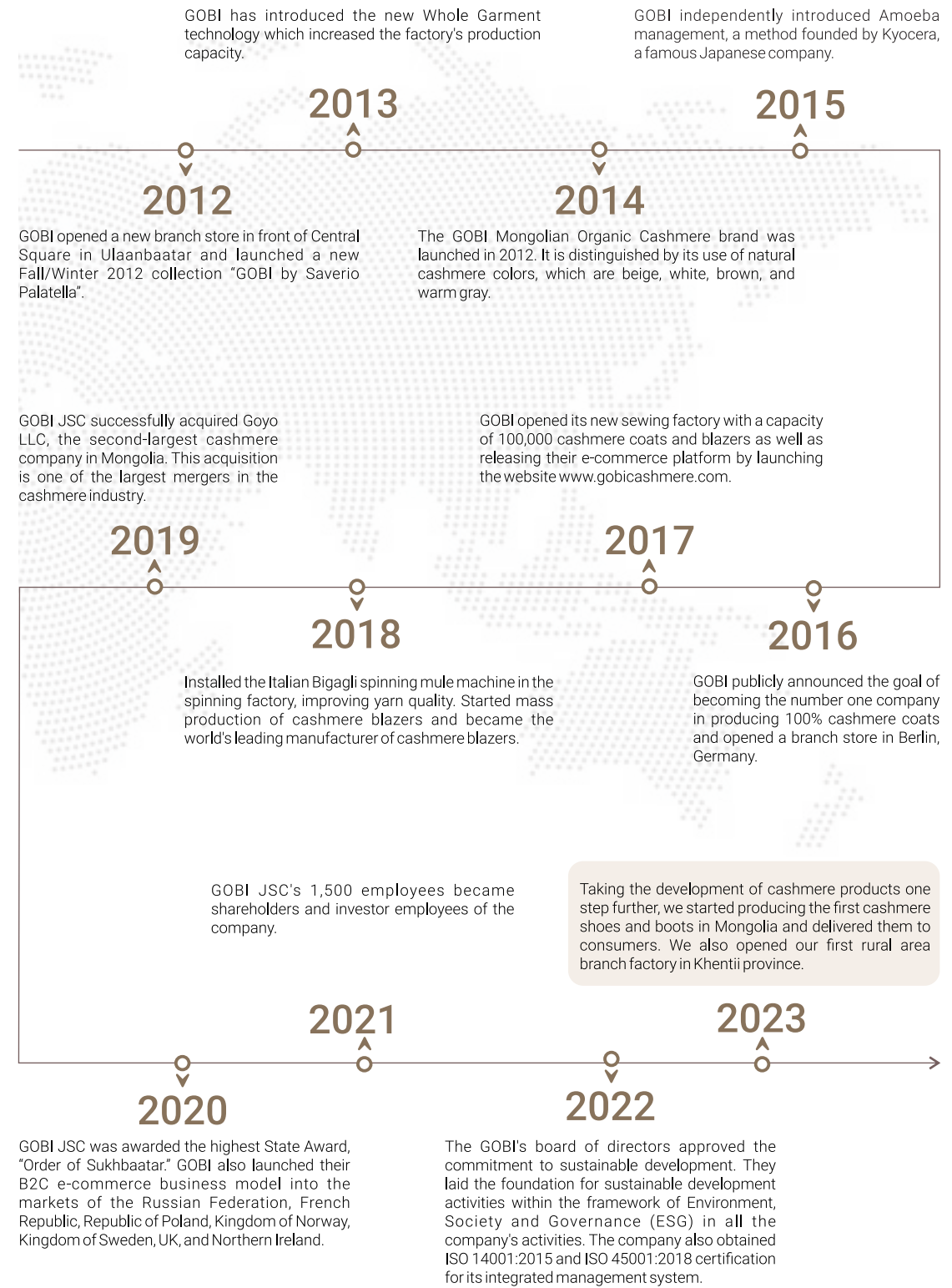
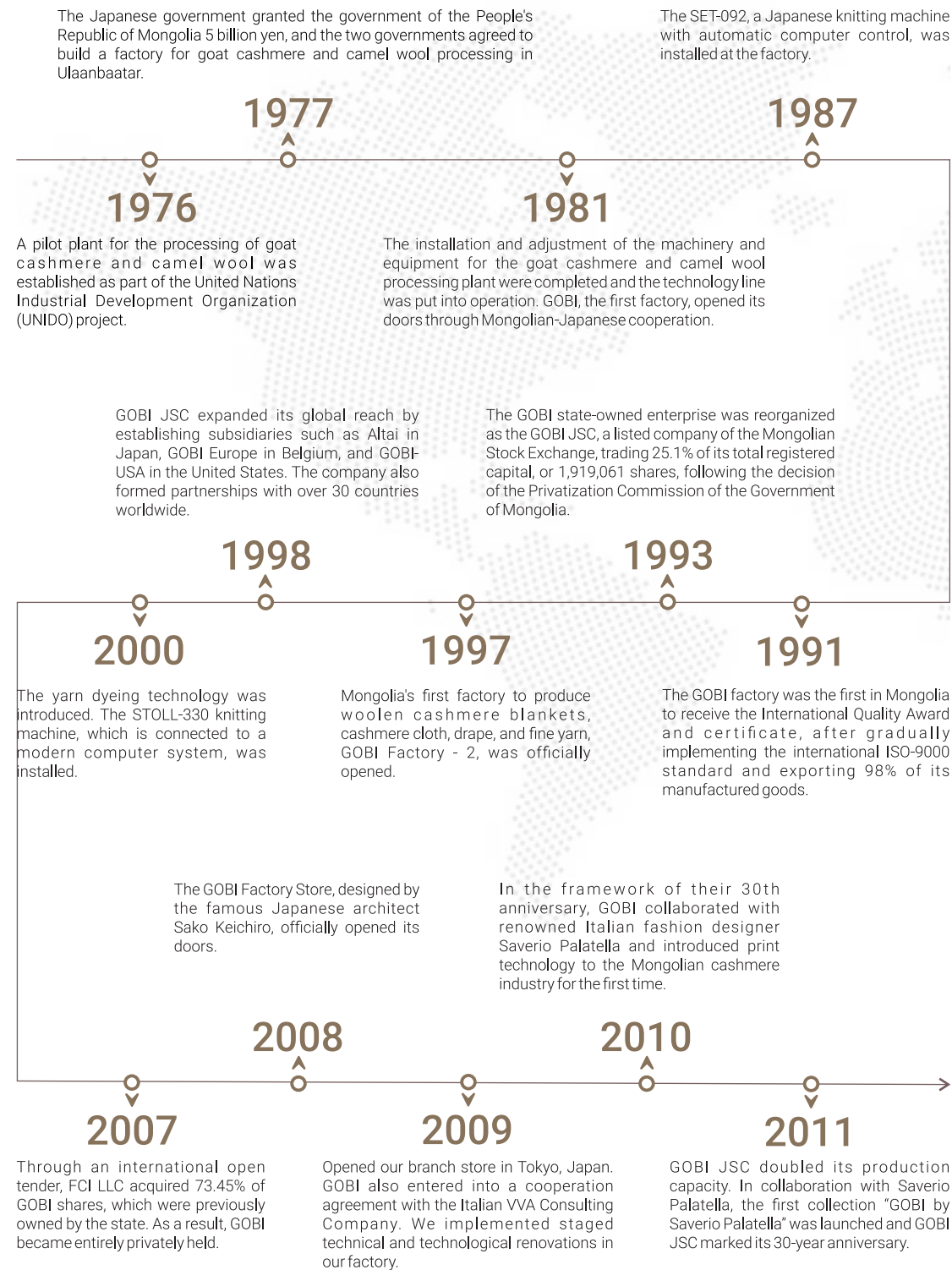


CREATIVITY



We seek new ideas and creativity whilst continuously striving for results that exceed our expectations.

HISTORY TIMELINE



LETTER FROM THE CHAIRWOMAN



Dear Shareholders, I extend my warmest greetings to you.

Our company, Gobi JSC, is one of the first open joint-stock companies in Mongolia. As a member of the TOP-20 list on the Mongolian Stock Exchange, we are committed to introducing international best practices in governance, establishing a balanced and robust governance system, protecting shareholders' interests, and ensuring information transparency.

We are pleased to announce that our implementation of the "Corporate Governance Code," approved by the Financial Regulatory Commission in 2023, has led us to rank first among Mongolia's open joint-stock companies.

Last year, the Board of Directors approved the "Investor Relations Program" and the "Stakeholder Engagement Management Plan," focusing on increasing stakeholder participation and safeguarding their interests. As a result, our shareholder base grew by 3.5%, reaching 24,000. We are delighted that the number of investors in our company continues to rise.

In recent years, environmental, social, and governance (ESG) responsibility has gained global prominence, with companies emphasizing long-term stakeholder value and sustainable growth. As an internationally recognized company, we aim to integrate sustainable development principles at every stage of our operations, conduct environmentally friendly production, and further strengthen our governance system.

As part of the "Sustainable Development Commitment," approved by the Board of Directors in 2022, we have actively supported and monitored the implementation of our sustainable development policies and goals. The Board has regularly overseen these efforts through meetings and guided the Executive Management Team to ensure successful outcomes.

For instance, during the "Sustainable Cashmere Day - 2023" event, we were recognized as "the best organization that introduced proper water usage in production." Additionally, at the "CSR Awards 2023," our "Sustainable Cashmere, Tripartite Joint Project," which we have been implementing since 2020, won the "Best Sustainable Development Project" award, highlighting the effectiveness of our step-by-step initiatives in sustainable development.

To support sustainable development activities and finance working capital, we successfully negotiated a \$30 million financing agreement with the Asian Development Bank. We have received the first tranche and plan to continually increase investments aimed at sustainable development.

Another highlight of the past year was the establishment of our first rural area branch factory in Khentii Province. This new facility created over 100 jobs, increased our production capacity, and contributed to rural development.

In 2023, Gobi JSC implemented a flexible working time system for office employees and a shortened working time system for factory employees with infants and kindergarten-age children. This initiative, part of our Sustainable Development Policy's "Happy Employee" goal, aims to ensure work-life balance. We will continue to foster a favorable workplace environment, provide opportunities for employee learning and development, and continuously enhance organizational culture through increased salaries, incentives, and overall job satisfaction.

We deeply appreciate the support of our dedicated employees, loyal customers, valued partners, shareholders, and all our stakeholders. Your contributions are the foundation of our success.

The Board of Directors of Gobi JSC wishes you all the best in your work, health, and well-being. May your endeavors be met with success, and may good health and prosperity accompany you in all your pursuits!

Sincerely,

CHAIRWOMAN OF THE BOARD
D.GERELMAA (Ph.D.)

LETTER FROM THE CHIEF EXECUTIVE OFFICER



Dear Shareholders, Customers, Business Partners, and Colleagues,
On behalf of Gobi JSC, I extend my warmest greetings.

Gobi JSC, with the slogan "Cashmere for all," has been successfully operating for 43 years since its establishment. Throughout this historical period, thanks to our organization's management and the dedicated efforts of our team, we have continuously expanded our business scope and developed further. I have been leading the Gobi JSC team for 16 years, serving as the Chief Executive Officer.

For Gobi JSC, 2023 was a year full of achievements. Last year, our company achieved the highest sales revenue of MNT 255.7 billion, a 32% increase from the previous year. Breaking down sales revenue by segment, domestic sales accounted for 57%, export sales 23%, and global sales 19%.

In the domestic market, the number of tourists to Mongolia increased significantly due to the Government of Mongolia's announcement of 2023-2025 as the "Year to Visit Mongolia." To promote tourist sales, we organized factory visits in foreign languages, collaborated with travel companies and tour guides, extended branch store hours, and increased the number of foreign-speaking trade consultants. As a result, sales increased by 57% from the previous year to MNT 147 billion.

We have been working in the export market since 2021 with a policy of cooperating with a select few high-quality strategic customers. Within this framework, we increased our profitability and production productivity, raising our export sales to MNT 59.5 billion, a 30% increase compared to the previous year.

In the foreign market, despite global geopolitical tensions and the impact of climate change, we established a subsidiary in the Republic of Kazakhstan and opened a new branch store in Düsseldorf, Germany, to boost sales. Additionally, by collaborating with SEO companies to improve the organic search visibility of the Gobi brand, the organic traffic to our website, www.gobicashmere.com, increased by 38%. This indicates that the results of our marketing and branding activities implemented in foreign markets since 2019 are beginning to show, and brand recognition is increasing.

Since 2020, we have been gradually transitioning to electronic systems to develop our software and management capabilities. Last year, we fully integrated systems such as the Product Lifecycle Management (PLM) system and the Finished Product Inventory system into our operations. These advancements will not only automate business processes and speed up operations but also significantly increase productivity. Additionally, preparations for introducing the SAP ERP system were successfully completed.

During the same reporting period, Gobi JSC successfully secured the ISO 9001:2015 Quality Management System standard certification, maintained the ISO 14001 and ISO 45001 certifications in 2022, and extended the certification period, thereby becoming a company that implements an integrated management system.

In terms of design development, last year we expanded our product range and produced cashmere shoes for the first time in Mongolia. Additionally, under the direction of the renowned Italian designer Giorgio Spina, we successfully organized a world-class fashion show in Mongolia, introducing the collections "The Face" and Organic "Materia," which elevated the design of cashmere products to a new level.

As part of our "Happy Employee" goal, we increased salaries by an average of 24% in 2023, adhering to our policy of leading the wool and cashmere industry through salary incentives. In the coming years, we will continue to improve the working environment, ensure work-life balance, and increase employee satisfaction by initiating and implementing activities aimed at enhancing our organizational culture. Looking forward, our company will maintain its leading market position, expand its activities globally, and mobilize all its resources to contribute to our country's economic recovery.

I wish you all health and success in your future endeavors! Wishing you all the best in your future endeavors, filled with good health and great success!

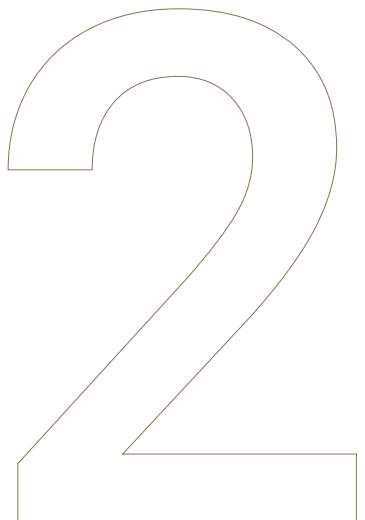
Sincerely,

CHIEF EXECUTIVE OFFICER
BAATARSAIKHAN Tsagaach

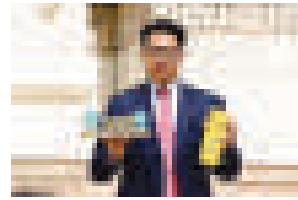
CASHMERE
BOOTS



GOBI IN 2023



OUR ACHIEVEMENTS AND HIGHLIGHTS



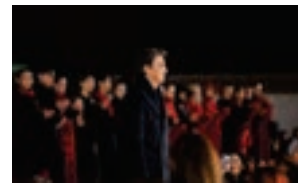
Ranked among the "TOP-100" enterprises.

Gobi JSC was honored to be ranked 21st in the "TOP-100" enterprises list, which evaluates contributions to Mongolia's economic and social development based on five parameters.



Factory store successfully renovated

The factory store adjacent to the factory was renovated and expanded, covering an area of 679 m². The store, which combines traditional Mongolian Ger style with a modern touch, was fully reopened on May 25.



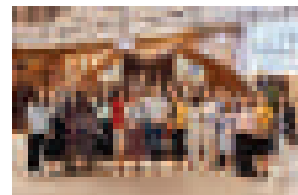
Launched World-Class Cashmere Fashion Show in Mongolia

On June 8, we successfully launched a world-class fashion show for the THE FACE Pre-Fall 23 and MATERIA Organic Pre-Fall 23 collections, the debut collections of our Chief Designer Giorgio Spina.



Started Production of Cashmere Shoes

In 2023, Gobi JSC expanded its product range by introducing a new type of 100% cashmere Felton material, developed using a special method. This innovative product won the "Outstanding Product - 2023" award from the Mongolian Wool and Cashmere Association.



Obtained the ISO 9001:2015 Certification

Having fully met the requirements of the ISO 9001:2015 Quality Management System standard, we obtained certification from the international SGS certification organization in June.



New Branch Store in Dusseldorf, Germany

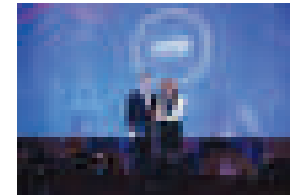
In October, we opened our second branch store in Dusseldorf, Germany, to enhance our foreign market sales channels and be closer to international customers. The store's interior design uniquely incorporates traditional Mongolian household elements.



First Rural Area Branch Factory in Khentii Province

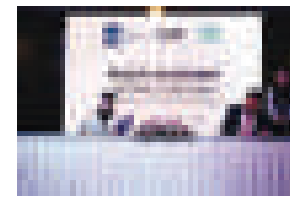
In November, we opened our first branch factory in Khentii Province, starting operations that not only created jobs in rural areas but also provided stable living conditions, reduced urban migration, increased household income, and supported local development.

We have opened our first branch factory in Khentii province. By establishing this branch factory, "GOBI" is not only creating job opportunities in rural areas, but also fostering stable living conditions, and reducing urban migration. This development not only promotes local economic growth but also increases household income, making it a highly advantageous endeavour that brings together numerous benefits.



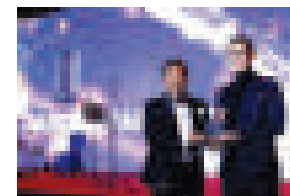
Recognized for our Sustainable Water Utility in Production

During the first "Sustainable Cashmere Day - 2023" event in November, organized by the Mongolian Sustainable Cashmere Platform under the United Nations Development Program and the ADAPT project, Gobi JSC was recognized as the "Best organization to have introduced sustainable water utility".



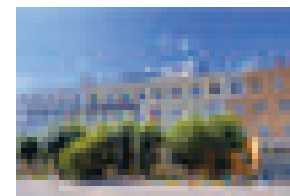
Secured financing from the Asian Development Bank

To support our international market expansion and sustainable development activities, we successfully negotiated a \$30 million long-term working capital financing agreement with the Asian Development Bank and received the first tranche of funding.



Received "CSR Sustainability" Award

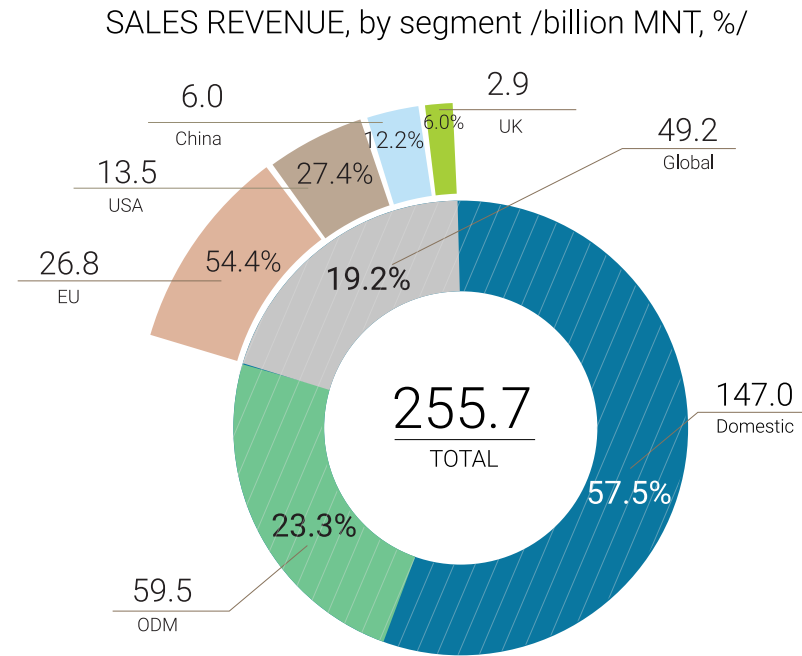
At the "CSR Awards 2023" event, organized by the American Chamber of Commerce in Mongolia (AmCham Mongolia NGO), our "Sustainable Cashmere, Tripartite Project," implemented since 2020, was selected as the best sustainable development project. Gobi JSC received the "CSR Sustainability" award.



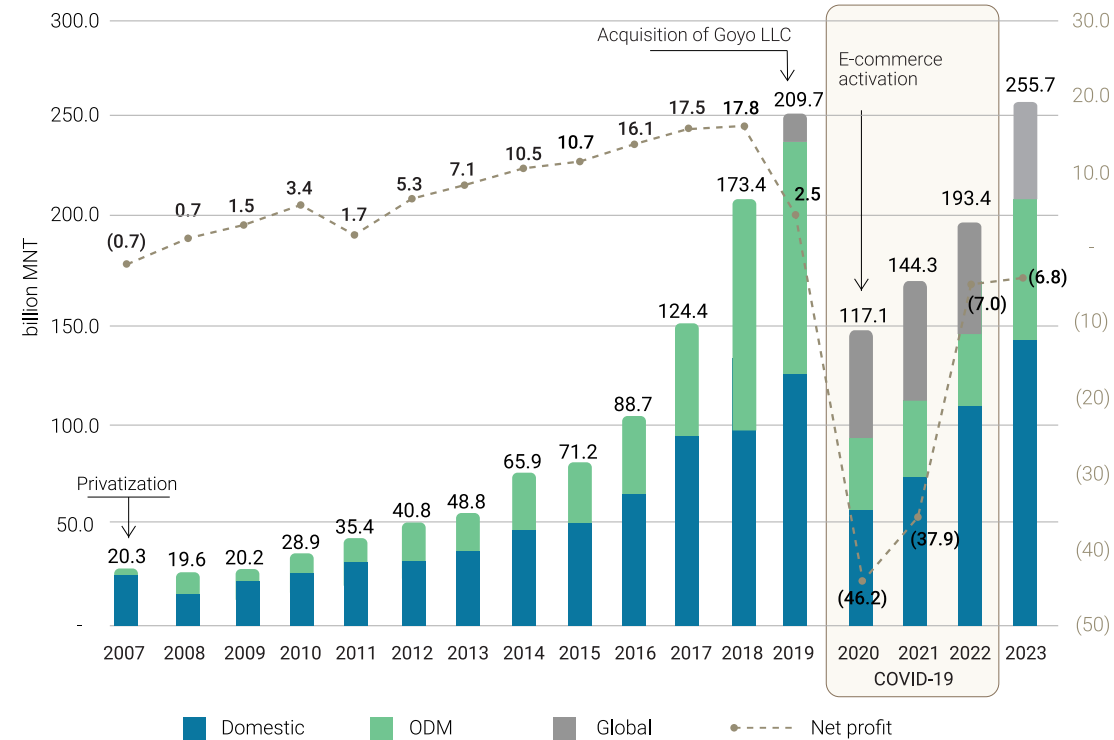
Ranked first in our Corporate Governance Code Implementation

The Financial Regulatory Commission evaluated the implementation of the "Corporate Governance Code" twice in 2023. Gobi JSC was ranked first among Mongolia's open joint-stock companies.

SALES

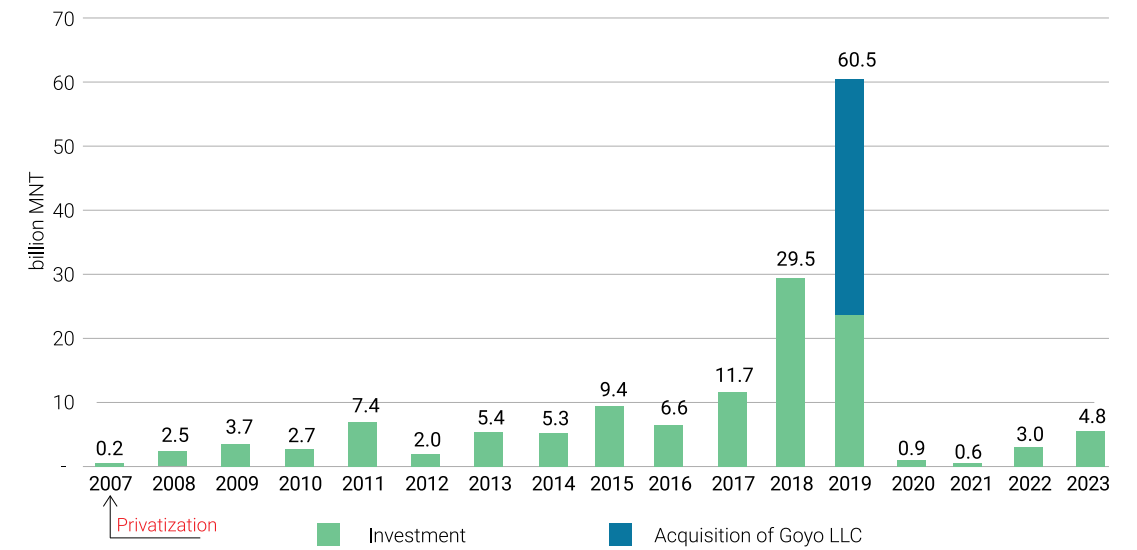


SALES, NET PROFIT /billion MNT/



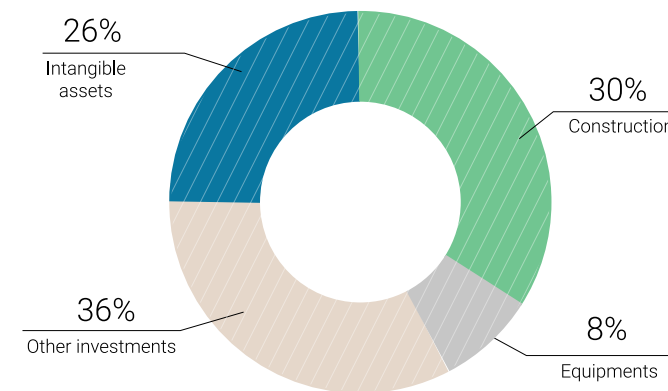
INVESTMENT

INVESTMENTS SINCE 2007 /Total 156.1 billion MNT/



The total investment amount since Gobi JSC privatization in 2007 is 156.8 billion MNT. Within this figure, an investment of 60.5 billion MNT was made in 2019. Specifically, 23.2 billion MNT was allocated for the development of Gobi LLC, covering construction, equipment, and other investments. The remaining 37.3 billion MNT reflects the increase, resulting from the acquisition of Goyo LLC.

2023 INVESTMENTS OVERVIEW

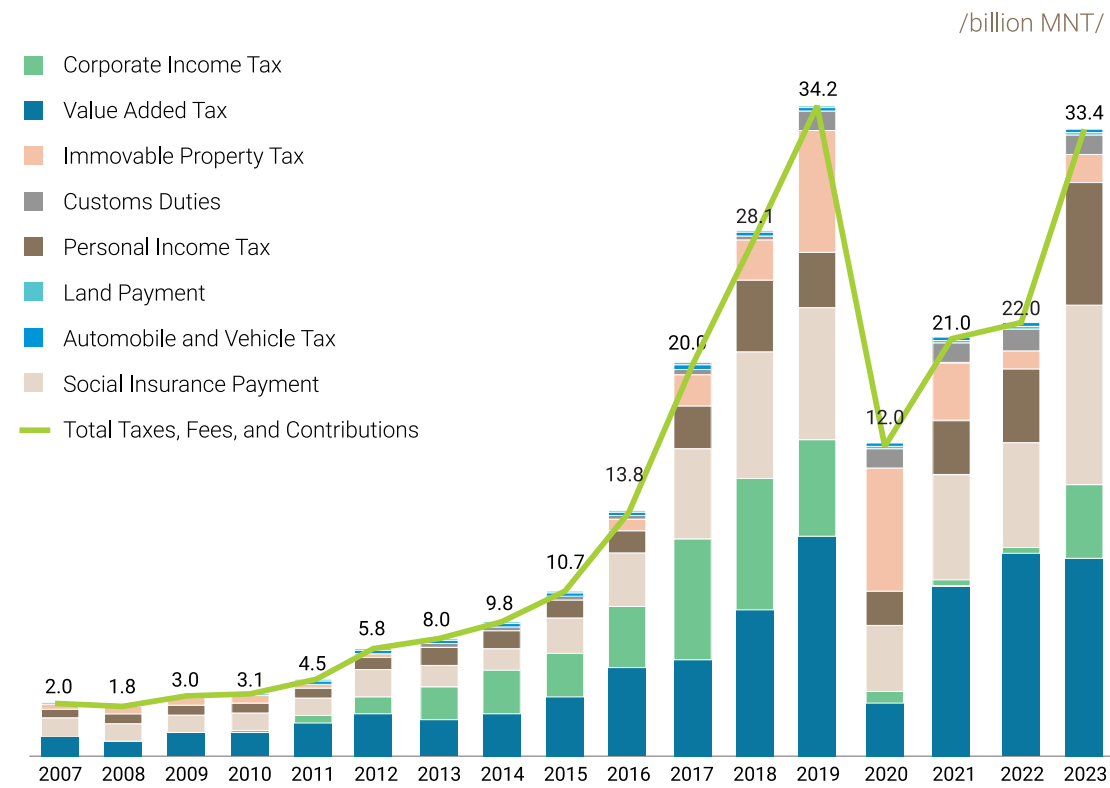


In 2023, the total investment of 4.8 billion MNT was allocated as follows: 30% for building construction (1.4 billion MNT), 8% for equipment procurement (408 million MNT), 36% for furnitures and other tangible investments (1.7 billion MNT), and 26% for intangible investments (1.2 billion MNT).

TAXES, FEES, AND CONTRIBUTIONS REMITTED TO THE STATE BUDGET

Gobi JSC has remitted a total of 233.3 billion MNT to the Mongolian tax authorities since 2007. Of this amount, 33.4 billion MNT in taxes, fees, and contributions were paid to the state budget in 2023.

TAXES, FEES, AND CONTRIBUTIONS REMITTED TO THE STATE BUDGET



GOBI IN 2023

/Comparative performance with 2022 /

↑ 32%

SALES REVENUE
255.7 billion MNT

↑ 3%

NET INCOME (NET LOSS)
(6.8) billion MNT

↑ 57%

DOMESTIC SALES
147.0 billion MNT

↑ 30%

ODM SALES
59.5 billion MNT

↓ 10%

GLOBAL SALES
49.2 billion MNT

↓ 4%

MARKETING EXPENSE
27.8 billion MNT

↑ 23%

GOODS MANUFACTURED
1.0 million

↑ 14%

GOODS SOLD
1.2 million

↑ 10%

MARKET CAPITAL
213.4 billion MNT

↑ 51%

TAXES, FEES AND CONTRIBUTIONS
33.4 billion MNT

↑ 60%

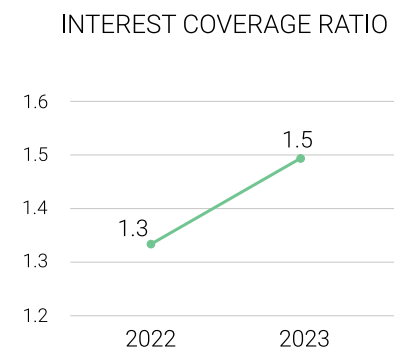
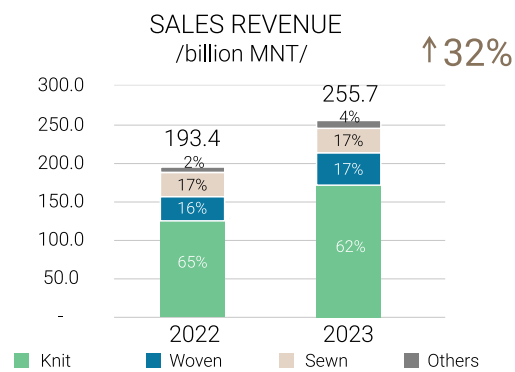
INVESTMENTS
4.8 billion MNT

↑ 7%

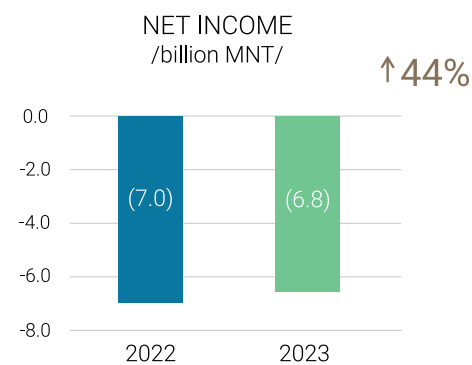
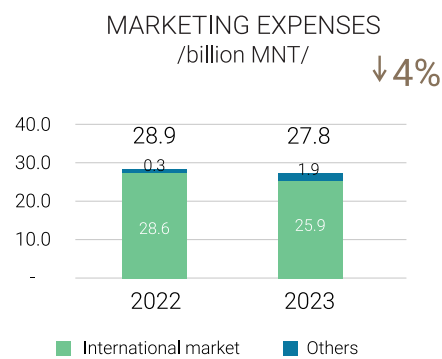
LOAN BALANCE
238.5 billion MNT

FINANCIAL RESULTS FOR 2023

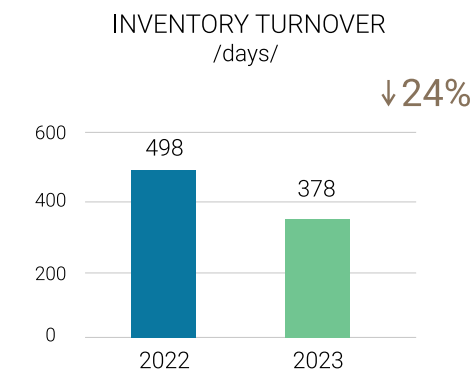
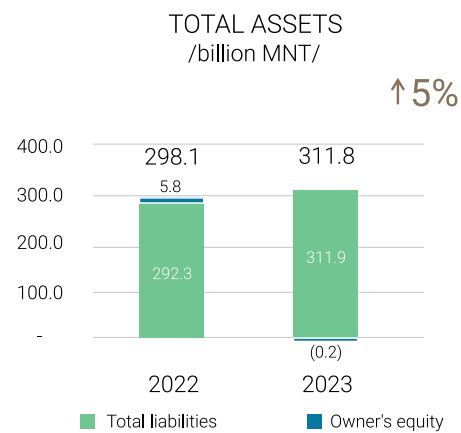
INDICATORS	Measuring unit	2022	2023	Differences	
		2022 Performance	2023 Performance	Quantity	Percentage
SALES REVENUE	million MNT	193,428	255,651	62,223	32%
Domestic	million MNT	93,500	146,997	53,496	57%
ODM	million MNT	45,586	59,485	13,899	30%
Global	million MNT	54,342	49,169	(5,173)	-10%
NUMBER OF GOODS SOLD	thousand.pcs	1,012	1,153	140	14%
COST OF GOODS SOLD	million MNT	97,767	131,011	33,245	34%
TOTAL INCOME	million MNT	95,661	124,639	28,978	30%
Gross margin	percent	49%	49%	-1%	-1%
Operating expenses	million MNT	100,815	124,142	23,327	23%
Marketing expense	million MNT	28,876	27,803	(1,074)	-4%
OPERATING PROFIT	million MNT	(5,155)	497	5,652	110%
Operating profit margin	percent	-3%	0%	3%	107%
Non-operating expense	million MNT	4,842	474	(4,368)	-90%
Profit before tax	million MNT	(9,997)	23	10,020	100%
NET PROFIT/LOSS	million MNT	(6,998)	(6,768)	230	3%
Net margin	percent	-4%	-3%	1%	27%
Total operating expenses	million MNT	198,582	255,154	56,571	28%
PRODUCTION	thousand.pcs	848	1,040	192	23%
Knit	thousand.pcs	674	742	68	10%
Woven	thousand.pcs	136	264	128	94%
Sewn	thousand.pcs	38	34	(3)	-8%
Coat	thousand.pcs	16	18	1	8%
Blazer	thousand.pcs	6	5	(1)	-17%
Spun yarn	tons	168	273	105	62%
TOTAL NUMBER OF EMPLOYEES	persons	1,548	1,765	217	14%
Revenue per employee	thousand MNT	124,953	144,844	19,891	16%
INVESTMENT	million MNT	3,009	4,809	1,800	60%
TOTAL LIABILITIES	million MNT	292,284	311,950	19,666	7%
Bank loan	million MNT	223,448	237,319	13,871	6%
TOTAL ASSET	million MNT	298,112	311,784	13,671	5%
Inventory	million MNT	128,809	142,521	13,713	11%



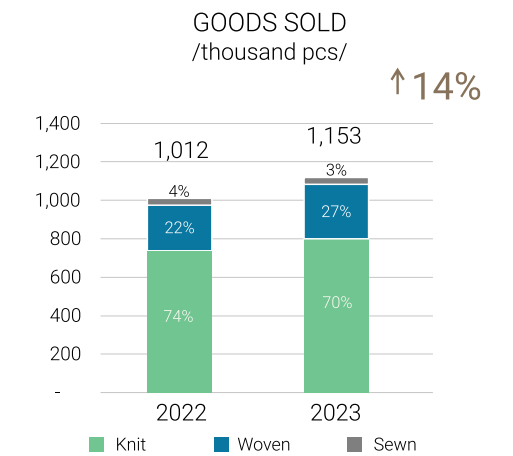
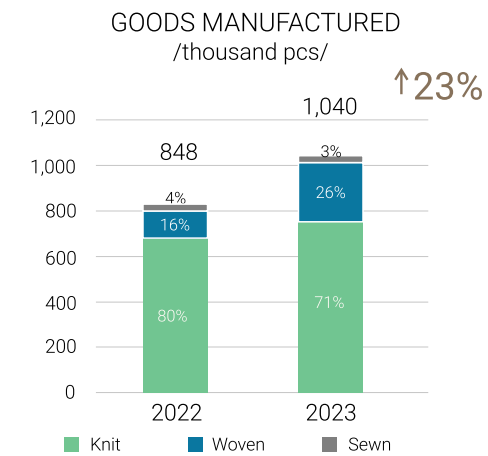
Compared to 2022, the profitability performance in 2023 increased by 32% to MNT 255.7 billion. The Interest Coverage Ratio improved by 0.2 percentage points.



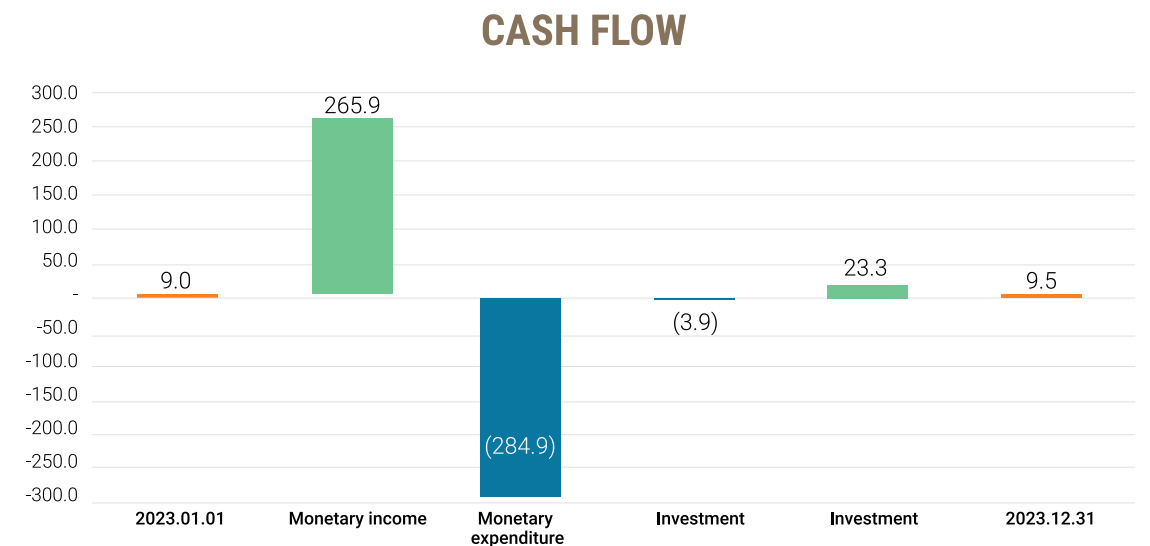
In 2023, marketing expenses totaled MNT 27.8 billion, a decrease of 4% compared to the previous year. Of this, 93%, or MNT 25.9 billion, was allocated to activities aimed at activating the foreign market, reflecting a 10% reduction in marketing expenses of the Global market from the previous year. The company's net loss for 2023 was MNT 3.9 billion, with the loss for the reporting period exceeding 30% of the equity amount at the end of the reporting period.



In 2023, inventory turnover days decreased by 24% compared to 2022, improving to 378 days, due to minimal raw material withdrawals and effective inventory reduction measures.



In 2023, the volume of goods manufactured increased by 23%, and the volume of goods sold increased by 14% compared to the previous year. Knitted products constituted 70% of the manufactured goods and 73% of the sold goods. Sewn products represented 3% of both manufactured and sold goods. Woven products accounted for 25% of manufactured goods and 27% of sold goods, marking a 5-percentage-point increase from the previous year.



In 2023, total revenue from operations amounted to MNT 265.9 billion, marking a 26% increase compared to 2022. Regarding cash flow, a total of MNT 284.9 billion was expended, comprising MNT 223.8 billion on operating expenses, MNT 33.4 billion on tax expenses, and MNT 27.7 billion on financing expenses. Investments totaled MNT 4.8 billion in 2023, resulting in a net investment cash flow of MNT 3.9 billion. The net financial cash flow is MNT 23.3 billion.

LOAN INFORMATION

/thousand MNT/

Name	Currency	2023 nominal interest rate (2022)	loan maturity date	2022.12.31			2023.12.31				
				Foreign currency /thousand/	Account value	Interest expense	Foreign currency /thousand/	Nominal price	Impact of fair value measurement	Account value	Interest expense
1. Golomt Bank (Discounted Loan) (I)	MNT	11.00%	2025	-	20,000,000	54,247	-	13,333,333	209,569	13,123,764	36,164
2. Golomt Bank (Credit Line) (I)	MNT	15.65%	2024	-	-	12,012	-	48,950,000	-	48,950,000	83,760
3. EBRD (Tranche 1A) (ii)	USD	6.79%	2024	1,818	6,262,910	204,356	-	-	-	-	-
4. EBRD (Tranche 1B) (ii)	USD	7.49%	2024	2,727	9,394,364	338,137	-	-	-	-	-
5. EBRD (Tranche 2) (ii)	USD	6.93%	2024	3,273	11,273,235	375,428	-	-	-	-	-
6. Khan Bank (Credit Line) (iii)	MNT	12.60%	2025	-	-	-	-	6,500,000	-	6,500,000	8,334
7. Khan Bank (Discounted Loan) (iii)	MNT	3.00%	2024	-	10,000,000	21,370	-	4,202,775	33,280	4,169,495	8,982
8. Khan Bank (Discounted Loan) (iii)	MNT	5.00%	2024	-	-	-	-	10,000,000	247,199	9,752,801	35,616
9. Development Bank of Mongolia (iv)	MNT	16.34%	2023	-	42,900,000	255,754	-	-	-	-	-
10. Development Bank of Mongolia (iv)	MNT	16.34%	2023	-	33,333,333	113,424	-	-	-	-	-
11. Xac Bank (v)	MNT	13.20% -14.40%	2024	-	9,566,000	201,904	-	-	-	-	-
12. Xac Bank (v)	MNT	5.00%	2023	-	-	-	-	16,666,667	238,441	16,428,226	68,493
13. Arig Bank (vi)	MNT	5.00%	2024	-	-	-	-	14,500,000	450,200	14,049,800	59,589
14. ADB (vii)	USD	3.89%+ SOFR	2026	-	-	-	12,000	40,928,280	-	40,928,280	104,954
15. IIB (viii)	EUR	4.25%	2027	8,000	29,352,160	162,864	8,000	30,333,280	-	30,333,280	1,475,377
16. IIB (viii)	EUR	5.25%	2027	14,000	51,366,280	352,073	14,000	53,083,240	-	53,083,240	3,189,418
Total loan balance					223,448,282	2,091,569		238,497,575	1,178,689	237,318,886	5,070,687

Mongol Bank Currency Rate /MNT/

	2022.12.31	2023.12.31
USD	3,444.60	3,410.69
EUR	3,669.02	3,791.6

MAJOR TRANSACTIONS

/thousand MNT/

Date	Context	Total amount	Counterparty	Terms and conditions	Starting date	Ending date	Approved by
2023.04.14	Loan from Xac Bank	25,000,000	Xac Bank	Loan with discounted interest for raw cashmere preparation	2023.04.14	2024.04.01	Board resolution no.13
2023.05.26	Loan from Arig Bank	14,500,000	Arig Bank	Loan with discounted interest for raw cashmere preparation	2023.05.29	2024.05.30	Board resolution no.18

CONFLICT OF INTEREST TRANSACTIONS

Date	Context	Total amount	Counterparty	Terms and conditions	Starting date	Ending date	Approved by
2023.06.16	Amending the Agreement for Opening Credit Lines with Khan Bank	10.0 billion MNT	Khan Bank	Loan with discounted interest for raw cashmere preparation	2023.06.28	2024.06.05	Board resolution no.20
2023.09.22	Authorization to Conclude An Agreement	400.0 thousand USD	Gobi Cashmere Kazakhstan (subsidiary)	Sales and Purchase	2023.09.26	2023.12.31	ТУЗ-ийн тогтоол №33
2023.11.20	Granting of Rights to Sell Real Estate	1.4 billion MNT	Ulaanbaatar Print LLC	Real Estate Sale	2023.11.20	2023.11.20	Board resolution no.37
2023.12.22	Amending the Terms of Current Account	-	Khan Bank	Modification of Current Account Conditions to "Corporate Tiered Interest Current Account" Terms	2023.05.17	-	Board resolution no.40

Process for Authorizing and Monitoring Transactions with Conflicts of Interest and Related Parties:

Transactions involving Tavan Bogd Trade LLC, the parent company of Tavan Bogd Group, a significant shareholder of Gobi JSC, and its affiliated entities are categorized as transactions with conflicts of interest or related parties.

At the onset of each fiscal year, the independent members of the Board of Directors approve the roster of individuals authorized to engage in transactions with conflicts of interest for that year. Subsequently, at year-end, the company's executive management submits a comprehensive report detailing transactions conducted with conflicted parties to the Board of Directors. The Risk and Audit Committee of the Board of Directors, along with independent members, then issue a resolution overseeing its execution.

For the fiscal year 2023, Resolution No. 03, dated 02.03.2023, was passed by the board of directors, sanctioning the list of related parties and authorizing the purchase and sale of goods and services essential for the company's daily operations at prevailing market prices and terms. The resolution also included a review of its implementation and oversight of transactions with related parties.

Detailed information regarding legal entities and ultimate owners of Gobi JSC is available on page of this report.

*Tavan Bogd Trade LLC changed its name to Tavan Bogd Holdings LLC from January 2024.

1. 2023 Transactions and Balances with related parties /thousand MNT/

1.1 Balances with related parties

The following balances were outstanding at the end of the reporting period:

	2022	2023
Accounts Receivable from Related Parties		
Other related parties	17,222	129,632
Payable to related parties /Short-term/		
Ultimate controlling party	-	13,642,760
Fellow subsidiaries	42,268	10,630,000
Other related parties	5,315	703
Payable to related parties /Long-term/		
Ultimate controlling party	30,980,732	17,032,986
Borrowings from related parties		
Other related parties	10,025,578	20,475,228

There are no liens on related party account balances and no provision for bad debts.

Long-term payables to related parties are related to the purchase of shares of Goyo LLC from Tavan Bogd Holdings LLC on credit terms. The Group has not pledged any assets on the agreement.

1.2 Transactions with related parties

The following transactions were incurred with Tavan Bogd Holdings LLC which is the Group's ultimate controlling party:

	2022	2023
Advances received from ultimate controlling party	-	200,750,000
Payment of advances received from ultimate controlling party	-	200,750,000
Purchases made from ultimate controlling party	1,356,559	1,375,508
Sales made to ultimate controlling party	7,789	33,051
Rental income from ultimate controlling party	22,090	-
Interest expense to ultimate controlling party	2,219,369	5,816,451

The following transactions were incurred with other related parties of the Group which are entities under common control:

	2022	2023
Advances received from other related parties	105,506,586	252,920,000
Payment of advances received from other related parties	105,506,586	242,290,000
Purchases made from other related parties	1,202,395	1,776,029
Purchase made from other related parties	28,918	25,932
Sales made to other related parties	134,599	251,554
Rental income from other related parties	347,349	292,062
Payment of interest expense to other related parties	853,494	2,226,785

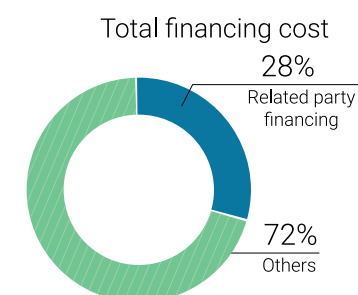
The following transactions were incurred with Khan Bank which is an associated entity of the ultimate controlling party:

	2022	2023
Advances received from Khan Bank	19,310,000	81,700,000
Payment of advances received from Khan Bank	9,310,000	70,997,225
Sales made to Khan Bank	22,002	138,672
Purchase made from Khan Bank	1,302,303	-
Payment of interest expense to Khan Bank	194,904	555,651

All transactions with related parties are on mutually agreed terms.

1.3 Comparison of transactions with related parties

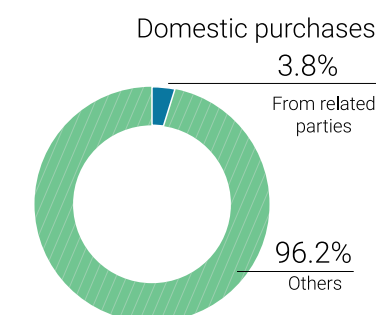
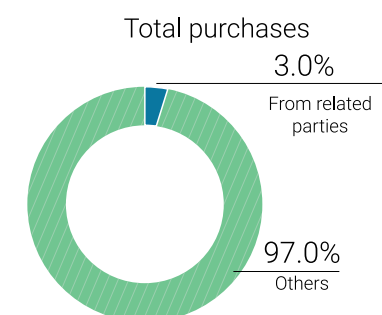
FINANCING COST	2022	2023
Total financing cost	26,000,427	31,150,837
Financing Cost from Related Parties:	3,267,767	8,598,888
Proportion of Financing Cost from Related Parties:	13%	28%



Gobi JSC incurred MNT 8,598,888 thousand for related party financing costs in 2023, representing 13% of the total financing costs. The average interest rate for related party financing in Mongolian Tugrik (MNT) was 16.1%, and 7.8% for US dollars (USD).

Note: Financial ratios and collateral are not required for related party financing.

PURCHASES	2022	2023
Total purchases	60,911,143	102,285,245
Overseas purchases	10,241,714	22,143,070
Domestic purchases	50,669,429	80,142,175
Purchases made from related parties	2,811,030	3,040,428
Proportion of related party purchases in total purchases	4.6%	3.0%
Proportion of related party purchases in domestic purchases	5.5%	3.8%



Gobi JSC made purchases totaling 3,040,428 thousand MNT from related parties in 2023. This amount represents 3.0% of total purchases and 3.8% of domestic purchases. All purchases from related parties were made at market value.

Note: All related party transactions are subject to price comparison studies in accordance with Gobi JSC's "Procurement Policy", "Order Acceptance, Purchase and Delivery Procedures", "Service Procurement Procedures", and "Selection Committee Procedures". These transactions are conducted through a competitive selection process at market prices, ensuring no preferential treatment is given.



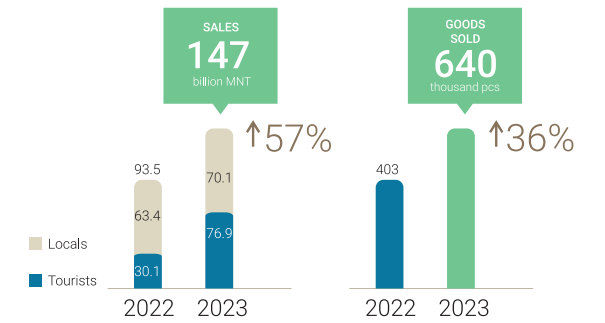
OUR ACTIVITIES

3

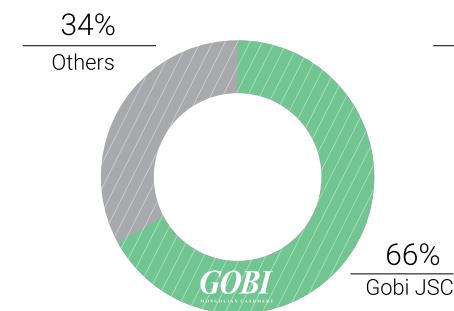
DOMESTIC MARKET

In 2023, sales in the domestic market amounted to 147 billion MNT, marking a 57% increase from the previous year.

Additionally, a total of 640,000 pieces were sold in the domestic market, reflecting a 36% increase compared with the previous year.

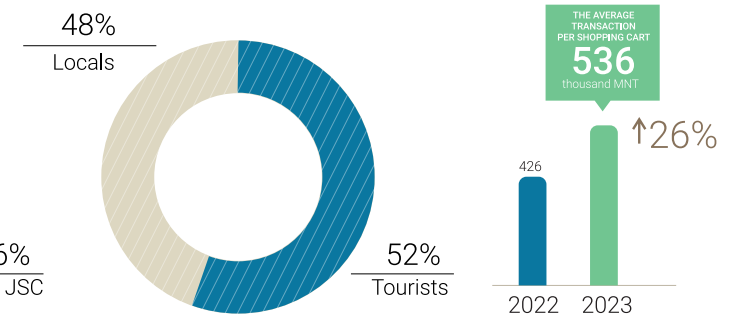


MARKET SHARE



In 2023, Gobi JSC held a 66% market share in the domestic market.

SALES COMPOSITION



In terms of sales composition, tourist sales account for 52% of total domestic sales. Moreover, the average customer shopping basket increased by 26% to 536,000 MNT this year.

↑114%

TOTAL TOURISTS VISITED MONGOLIA
651 thousand people

↑117%

TOURISTS SHOPPED AT GOBI BRAND STORE
153 thousand people

↑155%

TOTAL TOURIST PURCHASES
76.9 billion MNT

In 2023, the total number of tourists visiting Mongolia increased by 114% compared to the previous year, reaching a record 651 thousand, marking a historic milestone for Mongolia. Consequently, the number of foreign tourists making purchases from Gobi JSC surged by 117% to 153,000, indicating that one in every 4 tourists visiting Mongolia visited Gobi brand stores.

This increase led to a 155% rise in total tourist purchases, amounting to 76.9 billion MNT, which significantly contributed to a 57% growth in total domestic sales. These figures demonstrate the direct impact of international tourist arrivals on the company's sales.

With Mongolia declaring 2023-2025 as the 'Year to Visit Mongolia' and setting a target of attracting 1 million tourists in 2024, the development and growth of the tourism industry will provide a significant boost in sales, not only for Gobi JSC but also for domestic cashmere product manufacturers. Gobi JSC plans to capitalize on this opportunity by enhancing tourist attraction strategies, creating comfortable service conditions, maintaining product compatibility, and further improving service quality standards.

HIGHLIGHTS



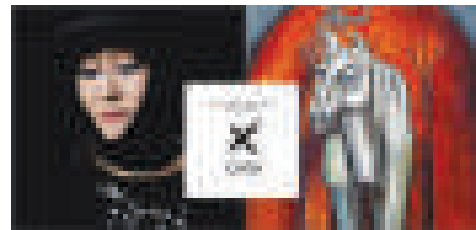
Factory Store Renovation

The expansion area of the central store adjacent to the factory was renovated and reopened, combining traditional colors with modern styles. The newly renovated area features a wall depicting the brand's story and a coffee shop to create a more comfortable shopping experience for customers.



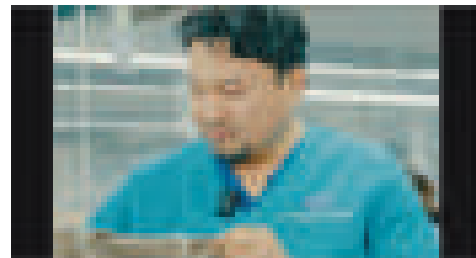
Giorgio Spina Fashion Show

We set a new standard for fashion shows in Mongolia by organizing our Chief Designer Giorgio Spina's first collections "THE FACE" Pre-Fall 23 and "MATERIA" Organic Pre-Fall 23 fashion show innovatively at the Chojjin Lama Temple Museum.



"Pioneer Pasqueflower" Collection

The successful launch of the "Pioneer Pasqueflower" Lunar New Year collection, in collaboration with state award-winning artist S. Sarantsatsralt, received high consumer satisfaction ratings.



Gobi Experience Project

The Gobi Experience Project, created in collaboration with actor P. Erdenezaan, effectively conveyed the product's story and value to consumers and enhanced the company's reputation in the labor market. Additionally, more than 20 employees from 9 media companies were invited to learn about the company's activities and tour the factories as part of this project.

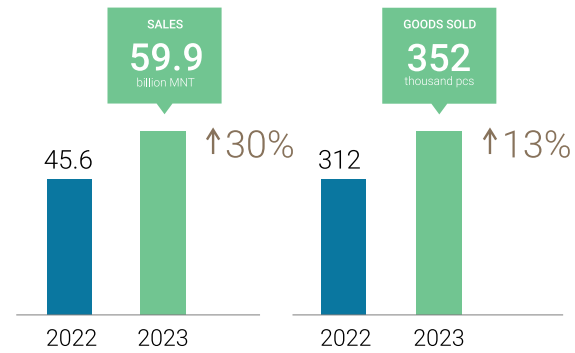


Professional Stylist Consulting Services

A new professional stylist consultation service was introduced at the Galleria store and Factory store. This service not only assists consumers seeking innovative fashion solutions and clothing choices but also enhances sales.

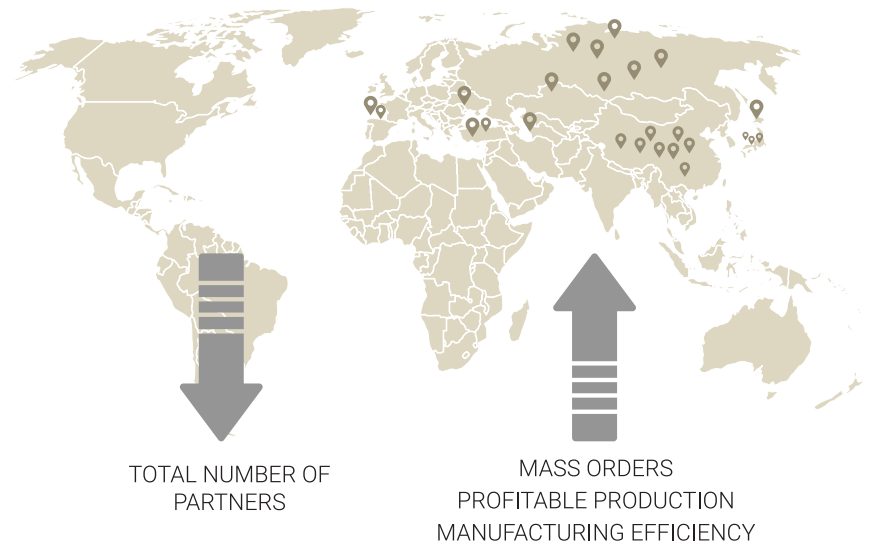


ODM MARKET



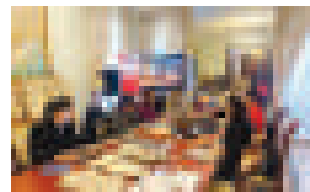
Regarding the ODM market, our company maintains a strategy of collaborating with a select group of high-quality strategic customers. In 2023, we achieved sales of 59.5 billion MNT from 51 customers across 18 countries, marking a 30% increase from the previous year.

Additionally, a total of 352,000 products were sold globally, representing a 13% increase compared to the previous year.

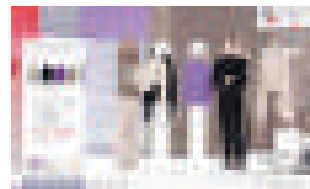


Gobi JSC has 21 franchise stores in 20 cities of 7 countries as of the end of 2023.

HIGHLIGHTS



In January, we held business meetings with customers in Paris, France, and presented a new collection. By meeting with customers in person and gaining detailed insights into their operations, trust and cooperation were enhanced, positively impacting sales growth.



We also began selling products under the Goyo brand through South Korea's Lotte Home Shopping channel.



GLOBAL MARKET

Since 2019, Gobi JSC has been developing its global sales channels and selling Gobi brand products internationally through online platforms and branch stores, aiming to introduce Mongolian cashmere to the world.

In 2023, the target markets for global sales were the European Union, the United States, and the People's Republic of China. The number of Gobi brand online stores increased from 5 in 2022 to 13 in 2023. We implemented website operations in the local languages of each country, improved website design and functionality, enhanced site engagement, and upgraded product photography. We also sell through platforms such as Zalando, Tmall, JD, and Taobao.

To gradually increase the number of branch stores, we opened a new branch in Düsseldorf, Germany, in October 2023, in addition to our store in Berlin. We continue to successfully expand our global operations.



WEBSITE		PLATFORM	
Europe		Europe	
1. www.gobicashmere.com	International	1. Zalando	/Germany, Austria, France, Sweden/
2. www.gobicashmere.com/de	Germany		
3. www.gobicashmere.com/fr	France		
4. www.gobicashmere.com/dk	Denmark		
5. www.gobicashmere.com/se	Sweden		
6. www.gobicashmere.com/it	Italy		
7. www.gobicashmere.com/pl	Poland		
8. www.gobicashmere.com/es	Spain		
9. www.gobicashmere.com/cz	Czech		
10. www.gobicashmere.com/fi	Finland		
11. www.gobicashmere.com/nl	Netherlands		
North America		BRANCH STORES	
12. www.gobicashmere.com/us	USA	1. Berlin, Germany	
UK		2. Düsseldorf, Germany	
13. www.gobicashmere.com/uk	UK		

MAIN INDICATORS

MARKET	CTR			CR			CPA		
	2022	2023	Differences %	2022	2023	Differences %	2022	2023	Differences %
EU, UK, North America	1.36%	1.23%	-10%	1.64%	2.24%	267%	\$65.45	\$65.15	0%
China	3.30%	2.68%	-19%	0.69%	0.70%	2%	¥190	¥185.1	-3%

Explanation of Indicators

CTR /Click through rate/

- The percentage of clicks or actions taken from the total number of ads viewed.

CR /Conversion rate/

- The percentage of total web visits that result in a purchase.

CPA /Cost per acquisition/

- The digital marketing cost per order.

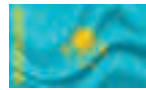
MARKET	Number of Orders			Goods Sold /thousand pcs/			Sales Revenue /billion MNT/		
	2022	2023	Differences %	2022	2023	Differences %	2022	2023	Differences %
EU	64,014	48,124	-30%	127.3	79.4	-38%	32.6	26.8	-18%
UK	128	6,499	4977%	7.5	8.6	15%	1.9	2.9	52%
US	26,174	24,989	-5%	51.4	42.3	-18%	13.7	13.5	-2%
CN	20,287	20,819	3%	25.8	23.7	-8%	6.1	6.0	-3%
Total	115,603	100,431	-13%	212.0	154.0	-27%	54.3	49.2	-10%

In 2023, compared to the same period last year, the number of orders in the foreign market decreased by 13%, sales volume decreased by 27%, and total sales decreased by 10%.

SALES CHANNEL	Sales/million MNT/		Differences %	Percentage in the total sales%
	2022	2023		
Website	27,400	21,208	-23%	79%
Zalando	1,089	1,654	52%	6%
Branch store	4,065	3,894	-4%	15%
TOTAL	32,554	26,756	-18%	100%

If we break down the sales of the European market, which is the main market for global sales, by channel, the e-commerce sales made through the website were 21.2 billion MNT or 23% less than the previous year, and the online sales of Zalando, the largest European marketplace, were 1.6 billion MNT or a 52% increase from the previous year, however the sales of 2 branch stores in Germany decreased by 4% or 3.9 billion MNT.

HIGHLIGHTS



Establishment of Subsidiary in Kazakhstan

To expand our global sales channels, a subsidiary was established in the Republic of Kazakhstan in September.



INSTAGRAM VERIFIED BADGE

Instagram Verified Badge

All 11 Instagram accounts of Gobi Cashmere across global markets have received official verification. This recognition is awarded to renowned brands meeting rigorous criteria, enhancing the Gobi brand's credibility and authenticity among international consumers.



CNN Program Feature

Representatives from CNN TV visited Mongolia to feature Gobi JSC's factories, stores, and operations on their "Made in" program. The program aired on CNN channels in the USA during June and July, marking a significant step in promoting the Gobi brand globally.



PR Agency Partnerships

In 2023, our Foreign Sales Marketing Department collaborated with targeted PR agencies such as L.E.R in the American market, B.agency in the English market, R+ in the German market, and Charaly PR in the Belgian market.

This resulted in partnerships with 429 influential personalities including Maye Musk, James Gunn, and Nas Daily, and features in 219 prestigious publications such as L'Officiel, GQ, Vogue, and Cosmopolitan. Additionally, we successfully participated in 11 events including Showroom in New York, Berlin VIP Fashion Lounge, and Berlin Beauty & Fashion Lounge, ensuring increased market awareness and high-quality brand representation.



New Branch Store in Germany

Continuing our strategy to expand boutique presence in foreign markets, we successfully launched a new branch store in Düsseldorf, Germany in October.



Google x GOBI

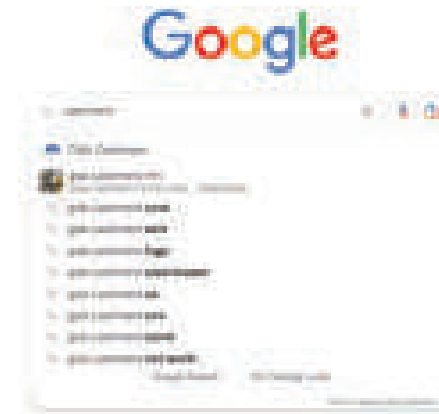
In September, representatives from Google visited Gobi JSC's factory in Mongolia to gain firsthand insights into the entire production process, from raw material preparation to final product assembly. This visit facilitated discussions on a strategic plan to enhance the recognition of the Gobi brand in international markets, which is currently being implemented through collaborative initiatives.



Data Science

Starting in 2023, our Foreign Sales Department began utilizing Data Science to leverage aggregated customer data effectively. This unified platform aids in optimizing customer purchase paths, refining data analysis processes, and enhancing sales forecasting accuracy.

GOBI BRAND ORGANIC SEARCH



In 2023, one of the most important projects in Global Sales was to work with companies that provide SEO or Search Engine Optimization services, focusing on improving the brand's organic search volume and visibility.

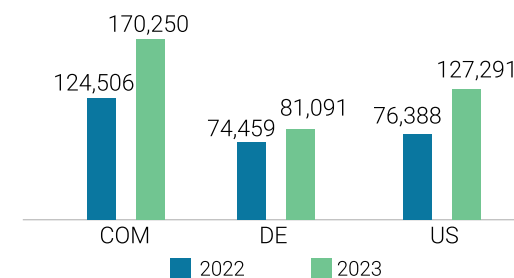
Organic keywords

DATE	Keyword ranking				Total number of Keywords		Differences %
	1-3	4-10	11-50	51-100	2022	2023	
Q1	485	1,448	7,182	3,820	3,529	12,935	267%
Q2	379	1,120	5,692	3,258	3,412	10,525	209%
Q3	296	817	4,700	3,989	6,566	9,916	51%
Q4	652	1,883	7,773	5,991	13,144	16,420	25%

In 2022, the total number of organic keywords was 13,144, and in 2023, it increased by 25% to 16,420. If you look at it, the number of words in the 1st-3rd places was 485 at the beginning, but at the end of the year there were 652, the words in the 4th-10th places increased from 1,448 to 1,883, the words in the 11th-50th places increased from 7,182 to 7,773, and the words in the 51st-100th places increased from 3,820 to 5,991.

Organic traffic

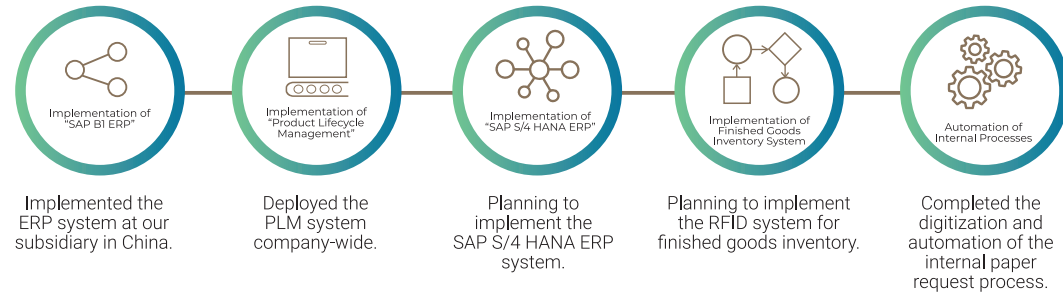
WEB TRAFFIC	2022	2023	Differences %
COM (www.gobicashmere.com)	124,506	170,520	37%
DE (www.gobicashmere.de)	74,459	81,091	9%
US (www.gobicashmere.us)	76,388	127,291	67%
Total	275,353	378,902	38%



In 2023, Gobi's focus on improving organic search results resulted in a 38% increase in organic traffic from total traffic to the website.

Of this, COM has 37% growth, DE has 9% growth, and US has 67% growth.

SOFTWARE DEVELOPMENT AND DIGITAL TRANSFORMATION



Implemented the ERP system at our subsidiary in China.

Deployed the PLM system company-wide.

Planning to implement the SAP S/4 HANA ERP system.

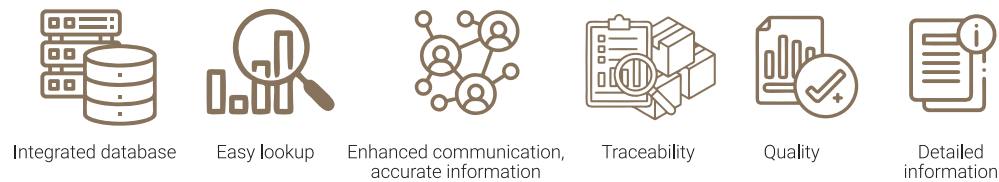
Planning to implement the RFID system for finished goods inventory.

Completed the digitization and automation of the internal paper request process.

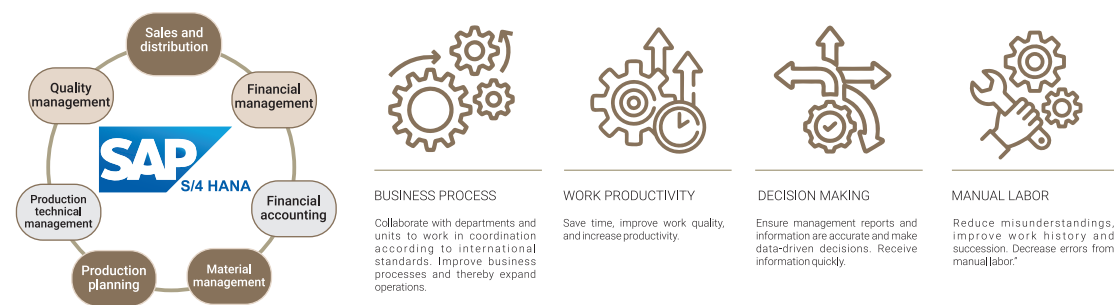
Since 2020, Gobi JSC has been progressively digitizing its operational processes and enhancing domestic software development initiatives, laying the foundation for newly implemented projects.

In 2023, the Information Technology Department successfully implemented production and product development systems, including the SAP ERP system, Product Lifecycle Management (PLM) system, and Finished Goods Inventory System.

PRODUCT LIFECYCLE MANAGEMENT (PLM)



ENTERPRISE RESOURCE MANAGEMENT (ERP)



The implementation of these systems in Gobi JSC's operations will bring significant advancements in various aspects such as product development, unit product efficiency, inter-process information, finished product quality, traceability, and the stable and normal operation of production. These improvements will greatly enhance operational efficiency and productivity.

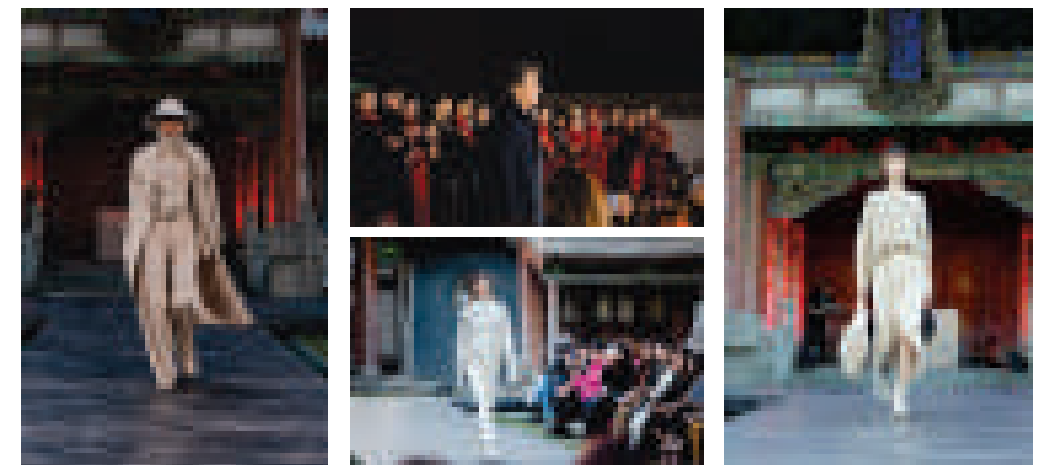
NEW TECHNOLOGY AND PRODUCT DEVELOPMENT INTRODUCED IN OPERATIONS

In 2023, Gobi JSC expanded its range of designs and introduced a new type of 100% cashmere Felton material with high density, specially processed to enhance cashmere product development. It also launched Mongolia's first cashmere shoes, bringing them to both domestic and international markets. This innovative product received the "Outstanding Product - 2023" award from the Mongolian Wool and Cashmere Association.

Our company's Design Development Department is led by an expert with experience in developing footwear for major international brands. We are currently developing shoe technology and plan to expand our range to offer various types of shoes to customers.



In 2023, the Design Development Department collaborated with Chief Designer Giorgio Spina on the Gobi Pre-FW23 and Organic Pre-FW23 collections. These collections utilized our full production capacity, combining knit and woven fabrics, and introduced new types of stitches in the design, bringing them to our customers. Additionally, we created 137 styles across 45 models and presented Mongolia's first major fashion show that meets international standards. Moving to the next level of our collaboration, we are preparing the Gobi SS24 and Organic SS24 collections, crafted with new types of cashmere-blended yarns tailored to different climatic conditions, for the international market.

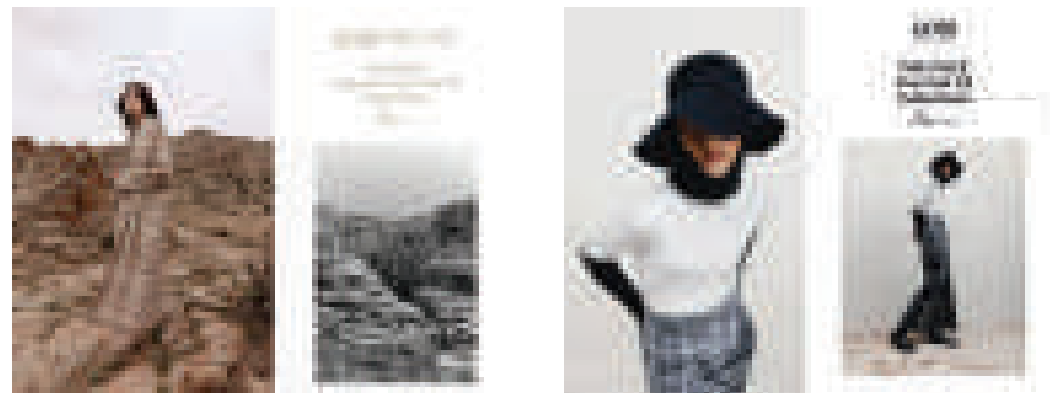


COLLABORATION WITH A WORLD-RENOWNED DESIGNER



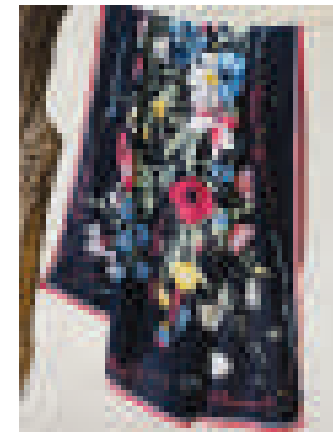
GIORGIO SPINA

Renowned Italian designer Giorgio Spina, one of the leading figures in the global fashion industry, has been appointed Chief Designer of Gobi JSC since December 2022. With over 20 years of experience in the fashion industry, Giorgio Spina's professionalism and talent have been highly regarded by prestigious brands such as Brunello Cucinelli, Alexander Wang, Moncler, and Zegna, who have incorporated his knitting yarns into their collections.

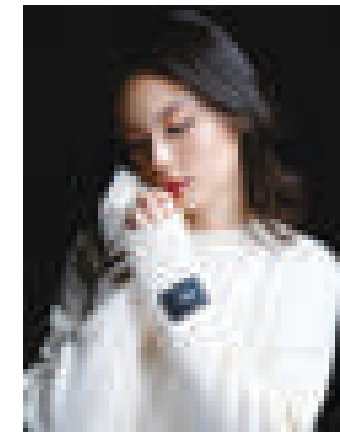


COLLECTIONS

In 2023, the skilled team of Gobi JSC's Design Development Department successfully launched a total of 29 new collections in both domestic and international markets. This effort aligns with the strategy to introduce new collections monthly, aimed at boosting sales, enhancing profitability, and consistently offering innovative products to customers.



PRINTED SHAWL COLLECTION



SWEATER COLLECTION



VALENTINE'S COLLECTION



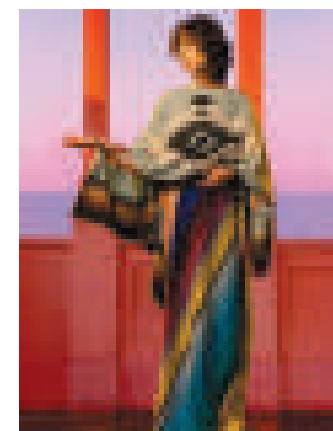
PIONEER FLOWER COLLECTION



3D WHOLEGARMENT COLLECTION



RABBIT YEAR EDITION SOCKS



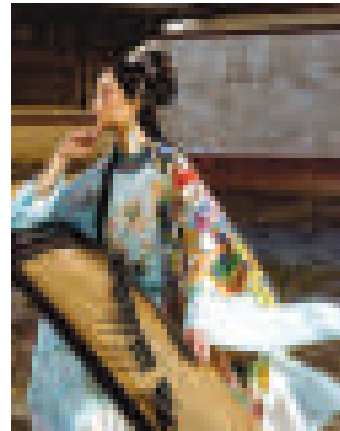
GOBI S/S 23
MEXICANA COLLECTION



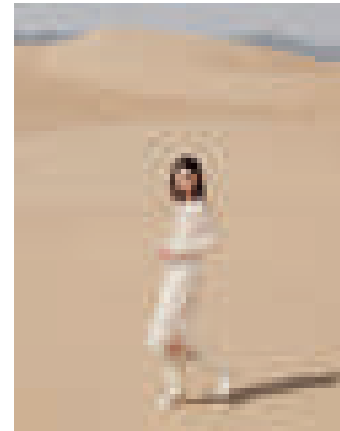
PEONY COLLECTION



KIDS 2023 COLLECTION



ONE DAY OF THE WORLD COLLECTION



SUPERTHIN COLLECTION



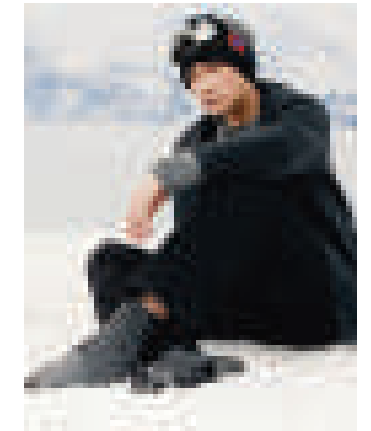
THE FACE PRE-F/W 23 COLLECTION



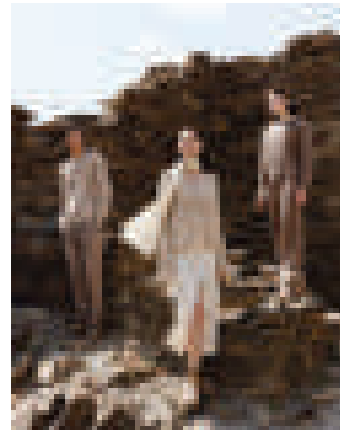
GOBI ORGANIC VANILLA F/W 23 COLLECTION



CASHMERE REBORN RESPONSIBLE COLLECTION



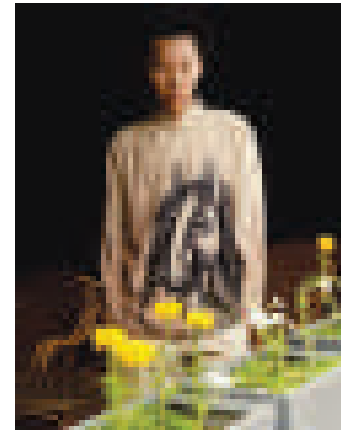
CASHMERE BOOTS COLLECTION



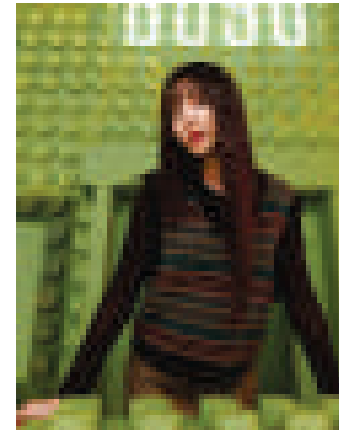
MATERIA PRE-F/W 23 COLLECTION



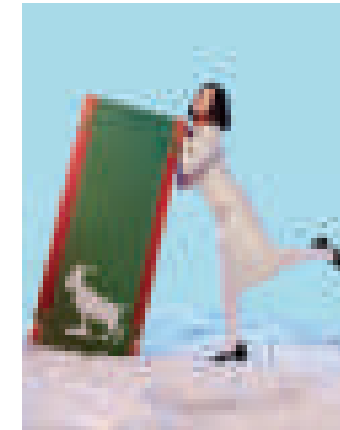
CASHMERE SHOES



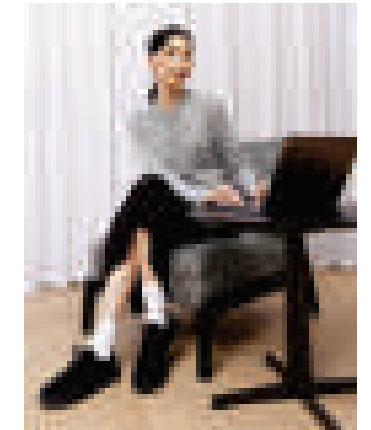
NAADAM COLLECTION



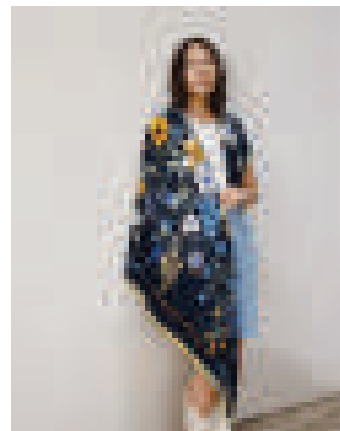
GOYO COLLECTION



WHITE FANTASY COLLECTION



KNITTED CASHMERE SNEAKERS COLLECTION



MOUNTAIN FLOWER COLLECTION



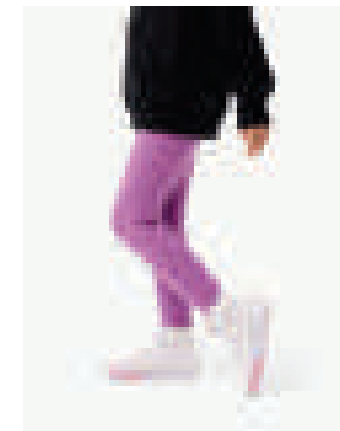
BLAZER COLLECTION



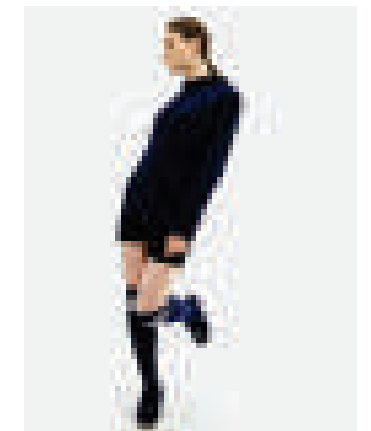
TOWN & COUNTRY F/W 23 COLLECTION



ACCESSORIES COLLECTION



LEGGINGS COLLECTION



CASUAL SPORTIVE COLLECTION

GOBI

MONGOLIAN CASHMERE

GOBI MONGOLIAN CASHMERE, the world-renowned cashmere brand that brings timeless pieces for everyone at every stage of their lives.



1 OUR COMPANY

2 GOBI IN 2023

3 OUR ACTIVITIES

4 SUSTAINABLE DEVELOPMENT

5 FINANCIAL STATEMENTS

GOBI ORGANIC

MONGOLIAN CASHMERE

GOBI ORGANIC, an undyed and unbleached cashmere line for people who value cashmere in its most authentic form.



YAMA, the epitome of the ingenuity of the world's top designers, is a luxury brand that creates elegant high-quality cashmere clothing.





GOYO, the brand that expresses freedom through vibrant colors and designs aligned with the current trend.



KID GOYO brand, the most comfortable and cozy cashmere pieces designed specifically for the little ones.





SUSTAINABLE DEVELOPMENT

Environment



Society



Governance



4

SUSTAINABLE DEVELOPMENT MANAGEMENT

In today's business environment, prioritizing the environmental, social, and economic impacts in decision-making has become a new trend globally. This is driven by consumer and investor demand for sustainable development indicators, and evolving legal frameworks requiring businesses to maintain competitive edge.

The garment industry, representing a substantial part of the global economy at \$2.5 trillion and providing employment for 75 million people, has seen rapid growth, exemplified by a 60% increase from 2000 to 2014. As a major national enterprise, Gobi JSC aims to lead in sustainable development and, in July 2022, established a Sustainable Development Policy document. This document outlines goals for sustainable development management across environment, society, and governance up to 2025, and we are implementing these plans in phases. We continuously increase investments in sustainable development, planning to allocate about 1% of our total sales revenue in 2024 to improve these indicators.

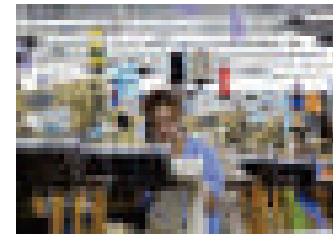
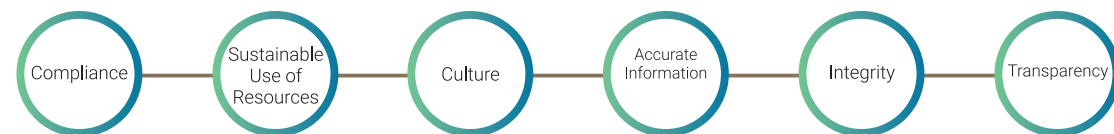
GOBI JSC – SUSTAINABLE DEVELOPMENT POLICY /2022 – 2025/



We aim to promote our Mongolian cashmere globally by ensuring transparency and continuous improvement in sustainable development indicators through collaboration with stakeholders in our supply chain.

The policy focuses on operating responsibly with environmental and social consciousness, enhancing productivity and value over the long term, and improving risk and opportunity management.

PRINCIPLES



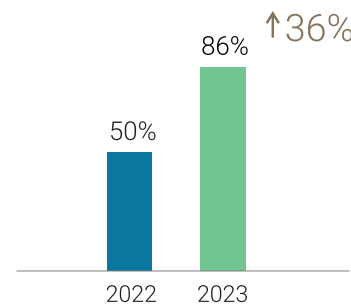
Spreading the culture of sustainable development

The concept of sustainable development is disseminated from the United Nations to governments, large companies, employees, and households.

Gobi JSC incorporates the principle of spreading knowledge and understanding of sustainable development among stakeholders into daily life.

In 2023, the company organized 2981 person/hours of training to enhance employees' knowledge and practices in ESG, spreading the culture of sustainable development to every household through employees.

LEVEL OF SUSTAINABILITY CULTURE



Improving the level of sustainability culture

In order to foster a strong culture of sustainable development, we annually assess the level of our sustainable development culture and plan for its improvement. In December 2023, a total of 855 employees were surveyed on their views regarding sustainable development management.

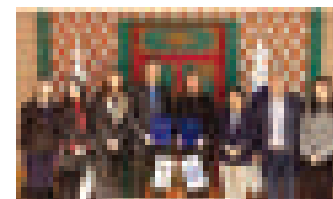
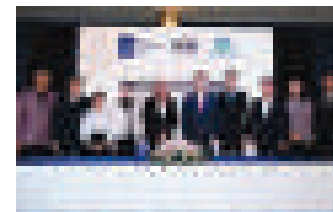
According to this study, the level of employee participation in improving awareness of sustainable development and its indicators has increased by 36% compared to the 2022 results.



Sustainable partnerships

Gobi JSC collaborates with prestigious domestic and international organizations, continuously learning and sharing experiences. A notable event in 2023 was our partnership with the Asian Development Bank to implement a pilot project on sustainable pasture management adapting herders to climate change. This project, running until 2029, aims to:

- Improve herders' livelihoods
- Provide equal opportunities for male and female herders
- Establish sustainable pasture management
- Help herders adapt to climate change collectively



After the successful completion of this project, the best practices, results and methods created during the project will be shared with relevant Mongolian government agencies. Thus, we are one step closer to creating a sustainable supply chain.



ENVIRONMENT



Climate change refers to long-term changes in temperature and weather patterns. Since the 1800s, human activity, including the burning of fossil fuels such as coal, oil, and gas, has been stated by the United Nations as the main cause of this change.

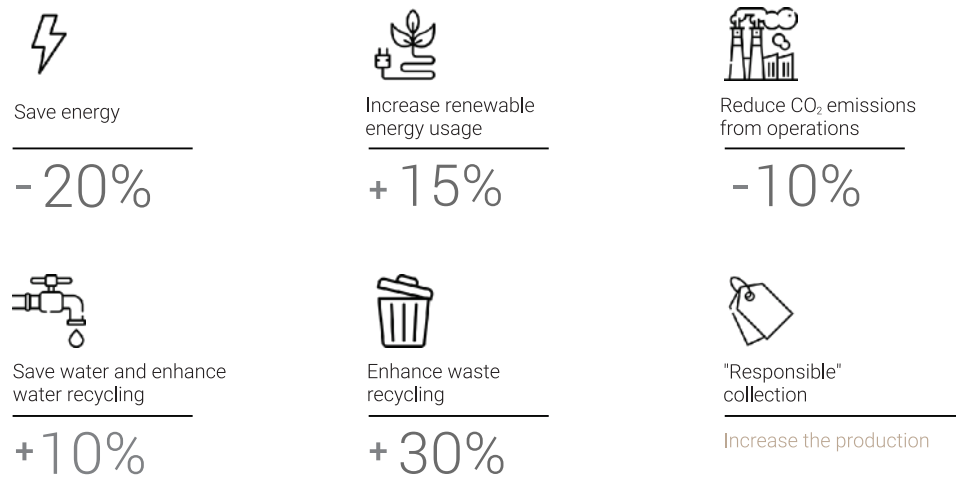
The issue of climate change is very important in our country. According to a joint study by the World Bank and the Asian Development Bank, the average temperature of the world will increase by 3.7% by 2090, while the average temperature of Mongolia will increase by 5.3%. This weather change will have the worst impact on the livestock sector, which is the largest employment sector in our country. Climate change will increase the severity and frequency of droughts, flood hazards, extreme heat and water shortages, according to sources.

Therefore, the countries of the world, and even companies, have made a commitment to minimize their impact on the environment within the framework of the 17 sustainable development goals of the United Nations and have started to take certain bold steps.

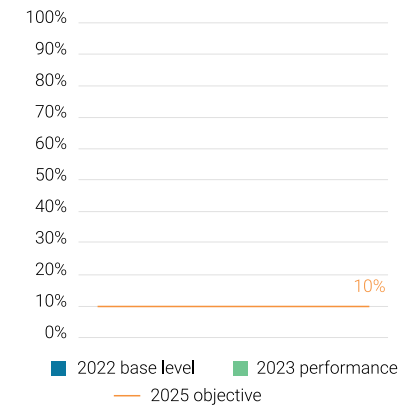


For Gobi JSC, in order to have a low negative impact on the environment and responsible use of natural resources at all stages of production, we have created and continuously improved the "GREEN SYSTEM" of Environmental Management, and have introduced ISO 14001:2015 Environmental Management System standard into our operations.

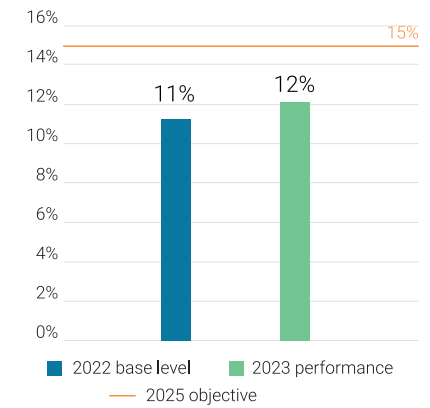
We have made a 3-year plan to achieve the following environmental goals in our sustainable development policy and are working to ensure its implementation.



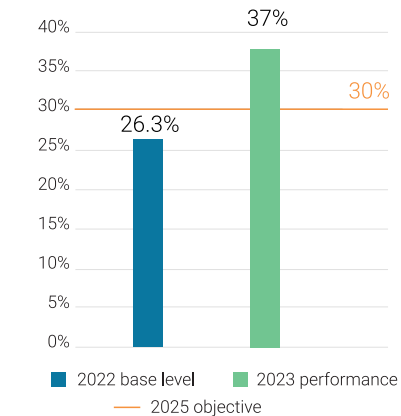
2025 ENVIRONMENTAL OBJECTIVES AND 2023 ACHIEVEMENTS



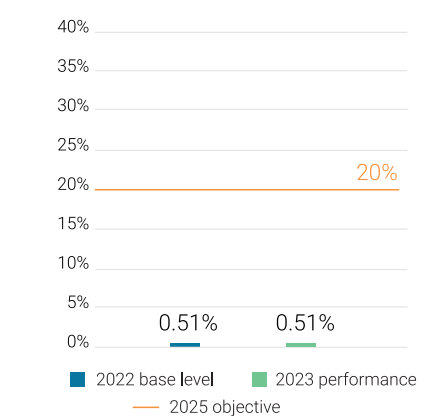
Improvement of clean and waste water meter, reuse up to 10% of domestic and industrial wastewater from the company operations



Increase the percentage of green spaces within the company's premises

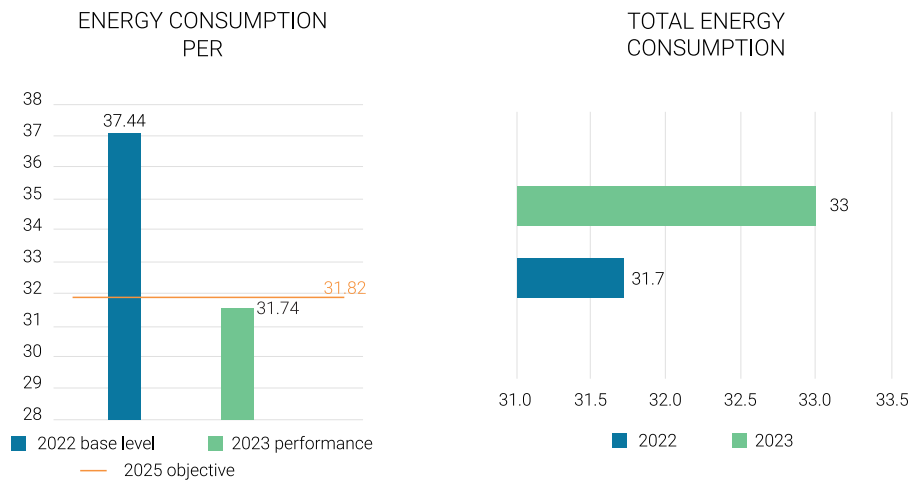


Classify and record all waste, increasing the percentage of recycled waste



Integrate renewable energy into operations

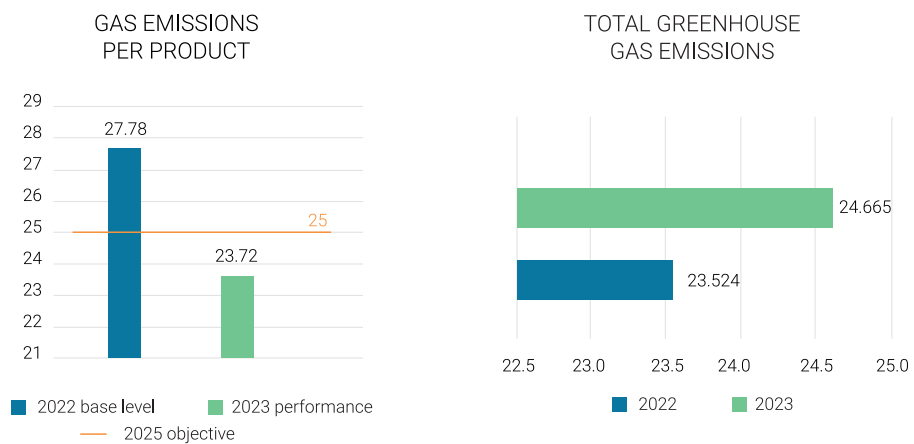
GOAL: Decrease energy consumption per product unit by 15% to 31.82 kWh



In 2023, energy consumption per product unit decreased by 15.2% compared to 2022

Total energy consumption in 2023 increased by 4%, compared to 2022.

GOAL: Reduce direct and indirect greenhouse gas emissions from operations by 10%



Gas emissions per product unit decreased by 14.6%

Total direct and indirect greenhouse gas emissions from company operations increased by 5%,

HIGHLIGHTS OF ENVIRONMENTAL ACTIVITIES IN 2023



ISO 14001:2015 Certification

We successfully maintained our ISO 14001:2015 Environmental Management System certification with continuous improvements and an international certification audit in 2023.



ENVIRONMENTAL AUDIT

We achieved 99.2% compliance in an environmental audit assessing adherence to Mongolian environmental laws and standards across 8 categories and 117 criteria.



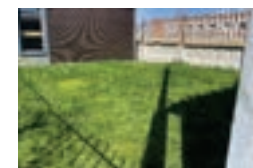
TRAINING - 258 PERSON/HOURS

- 160 person/hours on "Proper Use of Chemicals" for employees handling chemicals
- 98 person/hours on "Energy Efficiency" for technical management and factory supervisors



GREEN SPACES

- **3,200 pcs**
We planted 3000 elms and 200 willows as part of our environmental compensation and outdoor green space initiatives.
- **966 m.sq**
Lawns were planted to increase the area of green facilities throughout the company area. /Gobi, Gobi-2, Goyo/
- **800 tulips**
800 tulips were planted in the office area.



ENVIRONMENTAL MONITORING

Updated the environmental monitoring program, conducted sampling, and ensured compliance with standard indicators.

WASTE MANAGEMENT

Improved waste management by updating the "Waste Program" and "Waste Regulation," collaborating with "Ungu Nem" NGO to:



- Conducted a baseline waste study



- Increased waste segregation to four types



- Relocated the waste disposal site

CHEMICAL MANAGEMENT

Installed 76 spill containment pallets in four factories and two departments, reducing the environmental impact of chemical spills. Updated and approved the "Procedure for Ordering, Purchasing, Transporting, Storing, Using, and Disposing of Hazardous Chemicals."



ENERGY

Collaborated with CRD and Huawei to conduct studies and calculations for solar energy systems. Developed and approved the "Energy Saving Regulation" under ISO 50001, planning to use solar energy starting in 2024.



SUSTAINABLE USE OF WATER



Fresh water used for ventilation cooling is reused in the cashmere washing process at the primary factory.



When dyeing cashmere, water and chemical consumption were reduced by eliminating the bleaching process and dyeing directly on natural colors.



Additionally, sludge dewatering equipment was installed to improve the operation of the treatment plant.

AWARDED AS TOP ORGANIZATION FOR SUSTAINABLE WATER USE

Our company takes measures to reduce water consumption every year. For example, measures such as reusing clean water used for air conditioning cooling in the cashmere washing process of the primary factory, installing water-saving faucets in the bathroom, and rejecting bleaching when dyeing cashmere are being used more efficiently and economically.

Also, in 2020, a wastewater treatment facility was built and started to be used. In the future, we plan to increase the capacity of the treatment facility and upgrade the equipment.

2023 was the year when the above activities we are implementing were evaluated.

For the first time in Mongolia, the project "Improving the ability to adapt to climate change and risk management of rural people in Mongolia" (ADAPT) implemented by the Ministry of Environment and Tourism and the Ministry of Food, Agriculture and Light Industry under the funding of the Mongolian Sustainable Cashmere Platform and the Green Climate Fund under the United Nations Development Program The "Sustainable Cashmere Day - 2023" event was organized, and during the event, "Gobi" JSC was recognized as the best organization that introduced the proper use of water in production.



RESPONSIBLE PRODUCTION

At Gobi JSC, we have seamlessly blended the traditional nomadic lifestyle of our people, which spans hundreds of years, with modern production equipment and innovations to develop our products and services. We promise our consumers quality, consistency, style, and sustainability.



QUALITY



AFFORDABILITY



DESIGN

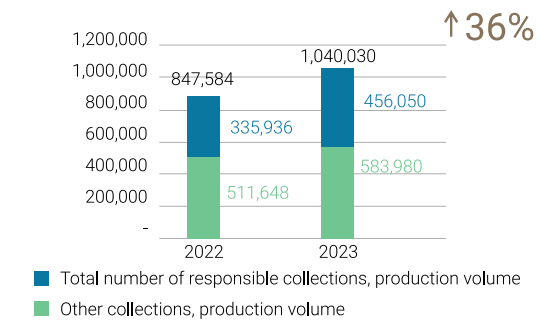


SUSTAINABILITY

In line with this commitment, we have been increasing the production volume of our environmentally and socially responsible collections each year. We are confident that this will help us achieve our goal of sustainable production.

We continuously introduce and utilize new technologies and methods to reduce the negative impact on the environment. We also invest in updating our old technology with modern equipment that consumes less energy and incurs lower costs.

Total Production of Responsible Collections

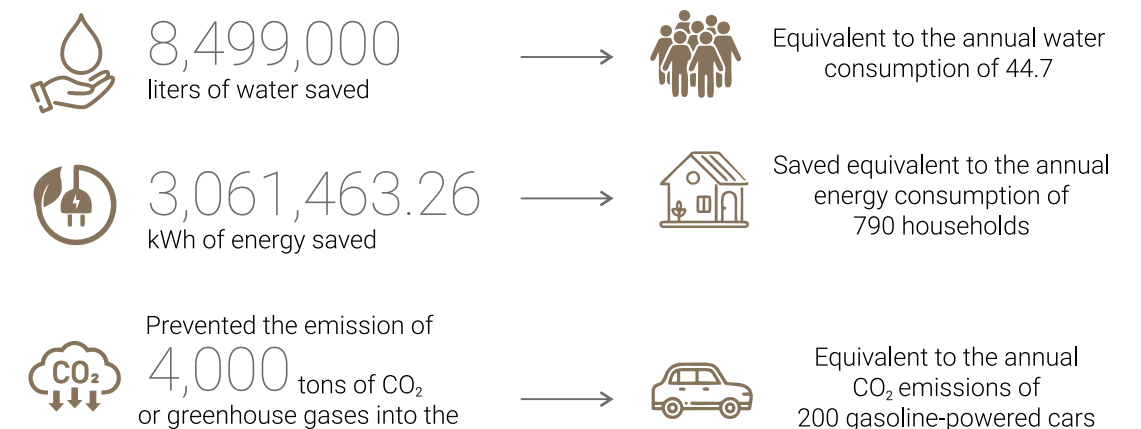


In 2023, the production volume of responsible collections increased by 36% compared to 2022.

The share of responsible collections in total production increased by 15% compared to 2022.

The positive environmental impact of the total responsible collection production can be expressed as follows:

/In comparison with other products/

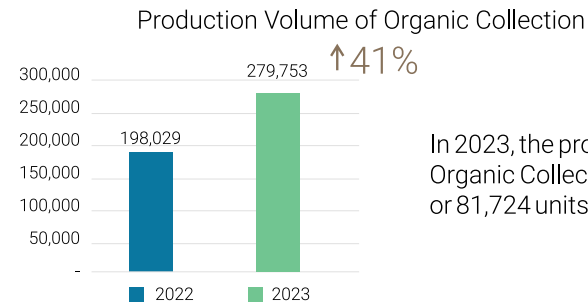


ORGANIC COLLECTION

Mongolian cashmere has a unique advantage due to its four natural colors, unlike cashmere from other countries. By leveraging this advantage, we offer products in our "Organic" collection that are free of any dyes or bleaching agents, making them the most environmentally and human-friendly products.

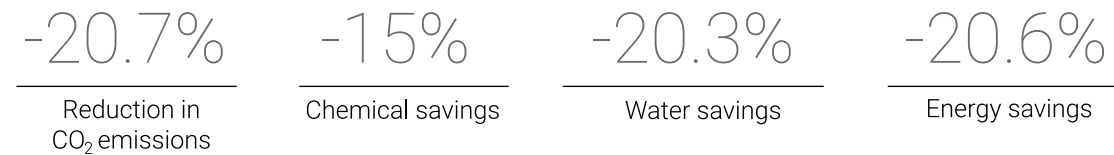
Features of the Organic Collection:

- No chemicals are used to dye the cashmere yarn, avoiding high water usage.
- Saves energy and reduces CO₂ emissions.
- Maintains the natural structure and quality of the cashmere yarn.
- Natural colors evoke a warm feeling.



In 2023, the production volume of the Organic Collection increased by 41%, or 81,724 units, compared to 2022.

The benefits of the Organic Collection in numbers

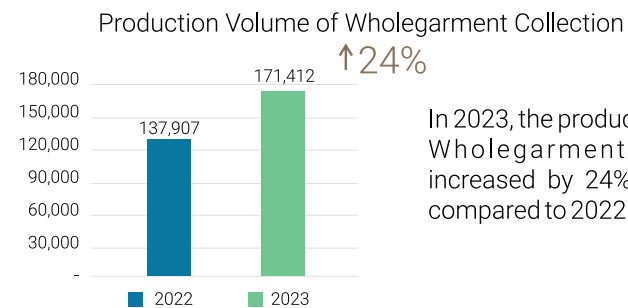
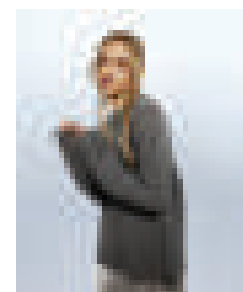


WHOLEGARMENT 3D COLLECTION

Seamless cashmere products differ from traditional knit products in that they have no seams. These products are knitted entirely using Shima Seiki knitting machines according to fashion programming.

Features of the 3D Collection:

- Comfortable to wear. No seams means it doesn't chafe or irritate sensitive skin.
- Environmentally friendly. Consumes less energy and water, with high productivity, making it economically efficient.
- Reduces technological waste. There is no waste from pattern matching in this collection's production.
- High durability. Uniform, high-quality knitting with a short production time, leading to long-lasting wear.



In 2023, the production volume of the Wholegarment 3D Collection increased by 24%, or 33,505 units, compared to 2022.

The benefits of the Wholegarment Collection in numbers

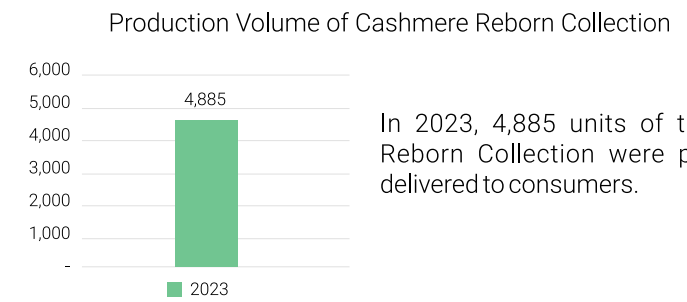
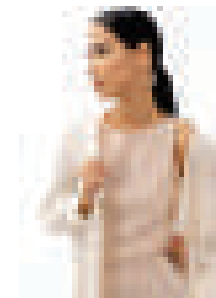


CASHMERE REBORN COLLECTION

In 2023, we introduced the "CashmeReborn" collection, presenting a new initiative for sustainable production to our consumers. This collection uses technological residues from the production process to create new products.

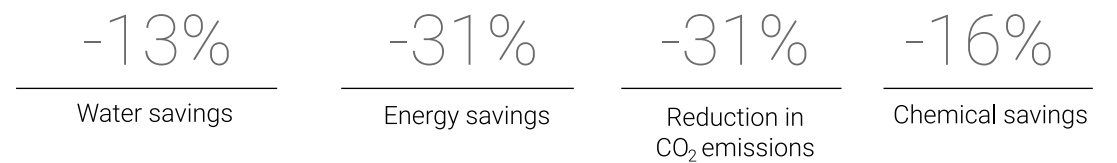
Features of the Cashmere Reborn Collection:

- Zero-waste production. Environmentally friendly with high economic value.
- Reduces water and energy consumption and CO₂ emissions.
- These products come in unique colors and designs.



In 2023, 4,885 units of the Cashmere Reborn Collection were produced and delivered to consumers.

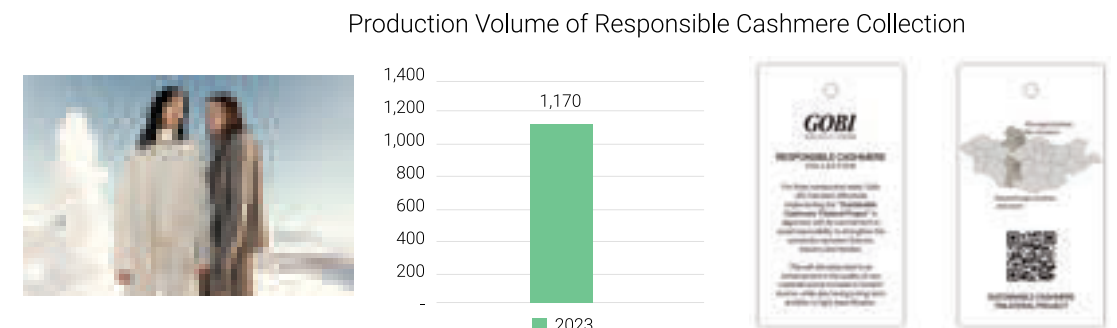
The benefits of the Cashmere Reborn Collection in numbers:



RESPONSIBLE CASHMERE COLLECTION

Over the past three years, Gobi JSC has initiated and implemented the "Sustainable Cashmere Tri-Partite Project" aimed at strengthening the relationship between production, herders, and science as part of our social responsibility efforts.

As a result of the project, the quality of raw cashmere has improved, increasing herders' incomes and addressing long-term ambitions to combat desertification. The Responsible Cashmere Collection, made from cashmere acquired directly from herders involved in the project, will be available on the European Union market from the first quarter of 2024











SOCIETY



Gobi JSC has divided its sustainable development policy into two main areas under "Social Responsibility": Responsible Human Resource Management, which focuses internally, and Social Responsibility, which focuses externally. Each area has specific objectives.

SOCIAL POLICY OBJECTIVES 2025

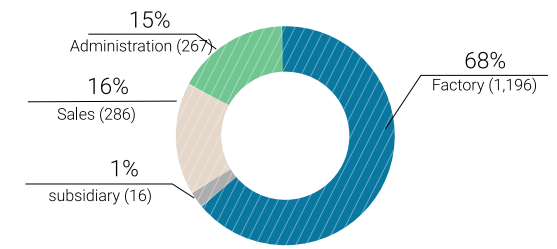
<p>Employee Turnover</p> <p>20%</p> <p>↑ Salaries and Incentives</p> <p>Leading Salaries and Incentives in the Industry</p> <p>↑ Safe and Healthy Environment for Employees</p> 	<p>Accident Frequency (OSH policy)</p> <p>0</p> <p>↑ Pleasant Work Environment Work-Life Balance</p>  <p>↑ Green Jobs</p>  <p>↑ Sustainable Social Investment</p> 	<p>Exploitation and Forced Labor</p> <p>0</p> <p>↑ Personal Growth and Development for Employees</p>  <p>↑ Equal Opportunities</p> 
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HR STATISTICS

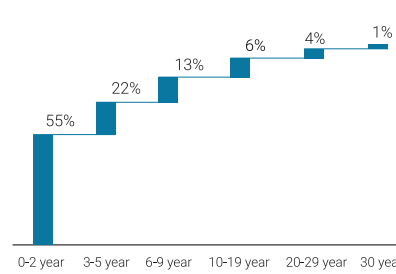
TOTAL NUMBER OF EMPLOYEES



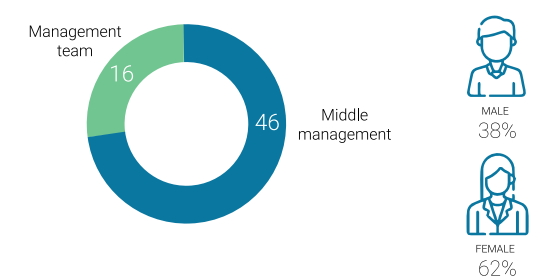
BY FUNCTION



BY YEARS OF SERVICES

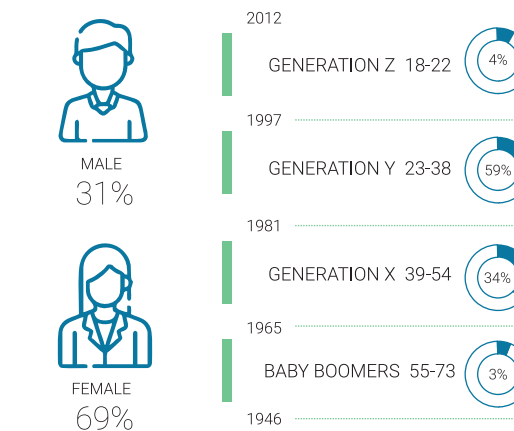


EXECUTIVE TEAM

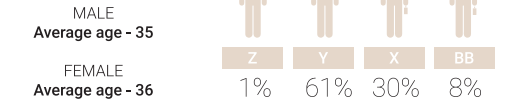


AVERAGE AGE 35:

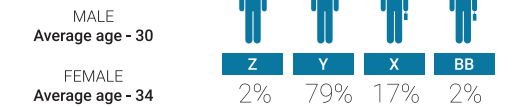
BY AGE GROUP



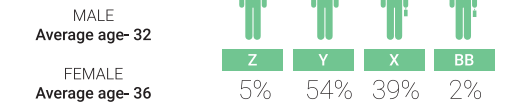
ADMINISTRATION



SALES

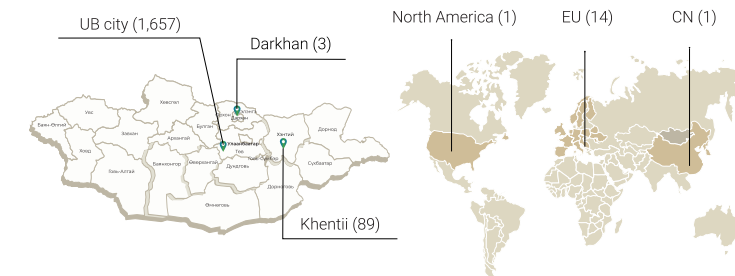


FACTORY

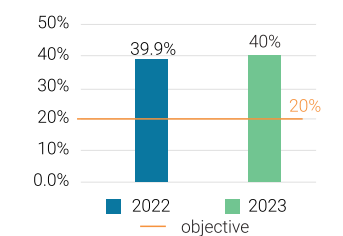


BY LOCATION:

MONGOLIA - 99% INTERNATIONAL - 1%



HR Turnover



By employee initiation - 35%
By employer initiation - 5%

RESPONSIBLE HUMAN RESOURCE MANAGEMENT

Gobi JSC is committed to maintaining stable employment and providing a favorable environment for growth and development, ensuring equal participation, and upholding human rights. The company focuses on the following areas:

1. Safe and Healthy Work Environment
2. Personal Growth and Development of Employees
3. Pleasant Work Environment and Work-Life Balance
4. Industry-Leading Salaries and Incentives

1. SAFE AND HEALTHY WORK ENVIRONMENT

Objective: Safety First

Gobi JSC aims to ensure a safe and healthy work environment for its employees by adhering to the ISO 45001:2018 standard for Occupational Health and Safety Management Systems in its daily operations.

The company operates an emergency unit that provides free services combining traditional and modern treatments, allowing employees to receive urgent care, preventive medical examinations, and first aid. This service is crucial for saving time, money, and ensuring the health of employees.

HOSPITAL

Year	Daily check-ups	Preventive check-ups
2022	3,774 employees	300 employees
2023	3,251 employees	1,500 employees

OCCUPATIONAL HEALTH AND SAFETY

OH	Accident-Free Work Hours	Training
2022	2,396,160 person-hours	15,144 employees trained (3.8 hours per employee)
2023	2,547,200 person-hours	6,105 employees trained (12.7 hours per employee)



2. PERSONAL GROWTH AND DEVELOPMENT OF EMPLOYEES

Objective: Implement Training Programs Based on Company Needs and Employees' Personal and Career Plans

Gobi JSC has included the following in its Human Resource Policy: "Support employees in enhancing their knowledge and skills, providing specialized training and development in the workplace to improve adaptability and productivity through both on-the-job and classroom training." Training and development activities are regulated by Gobi JSC's Training and Development Procedures.

Year	Number of Trainings	Number of Participants	Training hour per person 2023	
2022	246 trainings	8,662 trainings	Professional skills	5.2 person-hour
2023	316 trainings	5,618 trainings	General skills	6.4 person-hour

Financial Literacy Training

The "Stock Savings" course for financial literacy

- 5 times 8 hour classroom session for 243 employees
- Online session for 250 employees
- The "Savings Wealth Creator" event was organized three times, providing financial information to 210 employees, resulting in 35 employees receiving direct services and 18 opening savings accounts.

Gobi Trainer - 2023

The company has trained 27 internal trainers to conduct 30 training sessions for 927 employees, achieving a satisfaction rate of 92%.

This allows for the internal dissemination of Gobi JSC's culture through its trainers.



3. PLEASANT WORK ENVIRONMENT AND WORK-LIFE BALANCE

Objective: Happy Employees

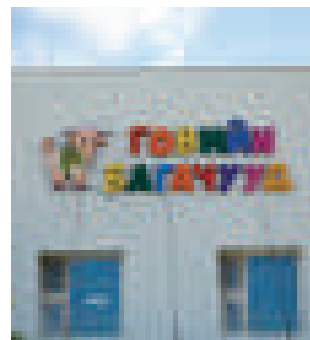
Gobi JSC believes that the most critical factor influencing the success and growth of any organization is the unity and happiness of its employees. Therefore, the company focuses on balancing work and life, providing a discrimination-free environment, and ensuring employee satisfaction.



Flexible Working Hours

To prevent traffic congestion, balance work and rest time, and implement child protection policies, Gobi JSC has been using a flexible working hours system for over 500 office employees for three years.

Additionally, 24 knitwear seamstresses with infants and preschool children work reduced hours.



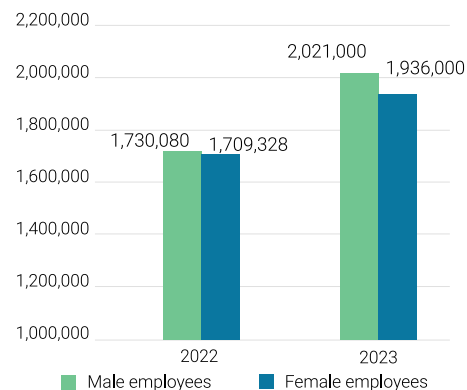
Gobi Kids Kindergarten

The "Gobi's Little Ones" kindergarten has been operating continuously since its opening in 2022, including during the summer, allowing employees to work with peace of mind, knowing their children are in a safe and healthy environment.

4. INDUSTRY-LEADING SALARIES AND INCENTIVES

Objective: Merit-Based Recognition and Retention of Skilled Human Resources

One of the major long-term investments for the organization is to develop and maintain a skilled and responsible workforce. Our organization is committed to providing equal opportunities for every employee, ensuring fair and honest compensation and incentives, and creating an environment where employees can live peacefully in their homeland.



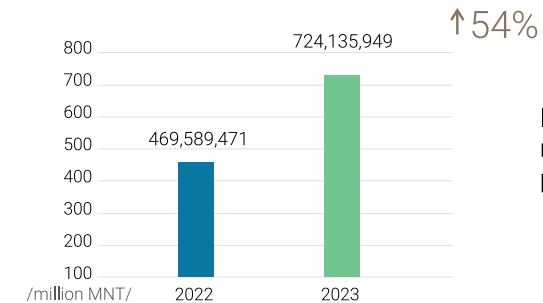
In 2023, the average salary of male employees was 4% higher than that of female employees.

The average salary increase for male employees was 16%, while for female employees, it was 13%.

SOCIAL RESPONSIBILITY /Sustainable Social Investment/

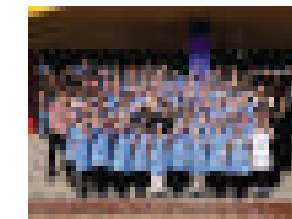
Objective: Increase Sustainable Social Investment Through Approved Projects and Achieve Over 90% Execution

As an integral part of society, business organizations must take the initiative in addressing societal issues, uniting others, and contributing to economic growth. Gobi JSC, as a leading manufacturer in the wool and cashmere sector, closely collaborates with the agricultural sector to implement various social responsibility projects in 2024.



In 2023, Gobi JSC invested 724 million MNT in social responsibility projects, a 54% increase from the previous year.

LOCAL DEVELOPMENT AND EMPLOYMENT SUPPORT



Gobi JSC opened its first rural branch factory in Khentii province in 2023. The factory, specializing in the highly skilled sewing process in the wool and cashmere sector, employs over 100 employees, with the first phase employing over 50 employees in the sewing positions.

The factory aims to increase skilled labor in the wool and cashmere sector and support local employment, reducing migration to the capital city and enhancing local development.

Gobi JSC invested over 400 million MNT in the construction, salaries, and operational costs of the regional factory from October to December 2023.

- **Warmest Gift Initiative:** Gobi JSC donated cashmere products to 800 newborns at the Urgoo Maternity and the National Center for Maternal and Child Health.
- **Happiness for Every Child:** Gobi JSC provided gifts for 135 children from target groups for Children's Day.
- **Support for People with Disabilities - Eco-friendly Cloth Bags:** Gobi JSC supports the "Eco-friendly Cloth Bag Factory" run by people with disabilities by ordering cloth bags from this factory.
- **Lunar New Year Greetings for Seniors:** Gobi JSC presented gifts to 456 retirees for Lunar New Year.
- **Family, Child, and Youth Development Activities:** Gobi JSC signed a memorandum of understanding with the Family, Child, and Youth Development Department of Khan-Uul District to train and develop its employees.

SOCIAL RESPONSIBILITY PROJECT

SUSTAINABLE CASHMERE TRIPARTITE PROJECT

About 70.1% of Mongolia's total area is pastureland, with a carrying capacity of 86 million sheep. However, as of 2022, the livestock number reached 120.7 million sheep, exceeding the carrying capacity by over 30%. A 2019 study by the Bank of Mongolia indicates that if the usage form is completely changed, more than half of the pastureland can be restored.

As of 2022, 300,000 livestock farmers live in Mongolia, with their livelihood directly depending on the cashmere industry. According to a 2019 study, 62% of their income comes from goat cashmere.

Therefore, Gobi JSC has been implementing the "Sustainable Cashmere Tripartite Project" for three years.

Initiated and funded by Gobi JSC in 2020, this project is being implemented in collaboration with the Agricultural University and herders in Jinst soum of Bayankhongor province and Ikh-Uul soum of Khuvsgul province until 2025. The project aims to strengthen the connection between production, science, and herders and improve the genetic resources of livestock.



Key Activities of the Project:

- Improving the genetic pool of livestock using elite breed bucks
- Collecting cashmere samples, determining quality indicators, and continuously improving them
- Producing traceable products from raw materials purchased directly from herders and delivering them to consumers
- Enhancing the health of livestock
- Organizing training and factory tours for herders.

In 2023, 125 million MNT was allocated to the project's funding, achieving a successful implementation rate of 91% according to the plan. We began purchasing cashmere directly from the herders involved in the project. Compared to non-project cashmere from the same region, the project cashmere showed a 1% reduction in fiber diameter and a 6% decrease in vegetable matter content, indicating positive results.

We have started producing products using project cashmere and plan to market them in the European Union in the first quarter of 2024. In line with our principle of promoting the culture of sustainable development, we conducted a training session titled "Herders' Participation in Sustainable Development" in November 2023 and distributed manuals to the project's herders.

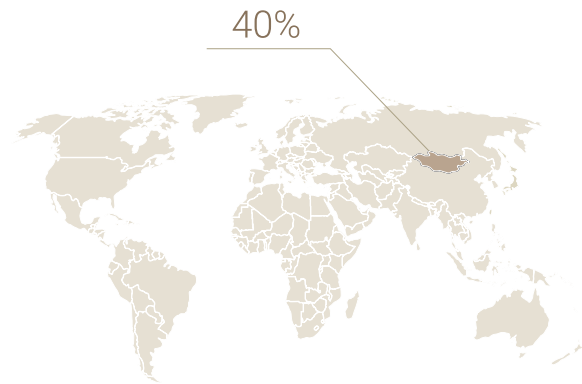
Moving forward, we plan to expand the project's activities by addressing social issues faced by herders, organizing training programs, assisting herders in obtaining eco-certification, and collaborating with the Asian Development Bank to implement the "Combating Pasture Degradation" project. This will include developing a climate change adaptation program.

In 2023, the "Sustainable Cashmere Tripartite Project" was recognized as the best project for sustainable development.

Specifically, the American Chamber of Commerce in Mongolia (AmCham Mongolia) held the "CSR Awards 2023," where projects implemented under social responsibility were awarded in three categories: INNOVATION, LEADERSHIP, and SUSTAINABILITY. Among the ten member organizations nominated in the SUSTAINABILITY category, Gobi JSC's "Sustainable Cashmere Tripartite Project" won the award.



CASHMERE SECTOR

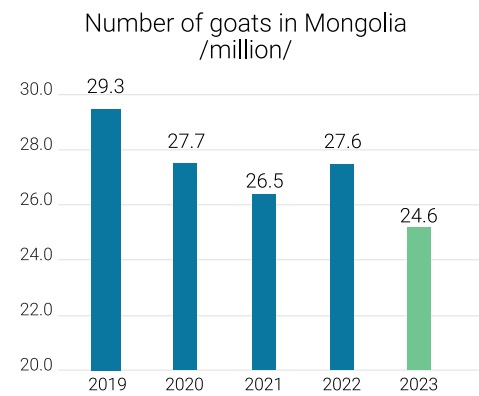


In 2023, the goat population in Mongolia was recorded at 24.6 million, which is a decrease of 3 million or 11% compared to the same period the previous year.

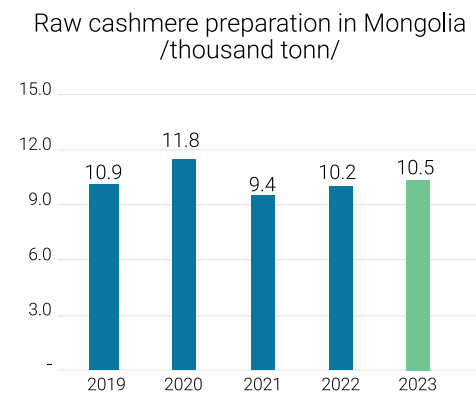
In the same year, Mongolia produced approximately 10.5 thousand tons of cashmere, an increase of 0.3 thousand tons or 3% from the previous year, supplying 40% of the world's raw cashmere.

The average price of cashmere in 2023 was 135,000 MNT, which is an 8% increase from the previous year.

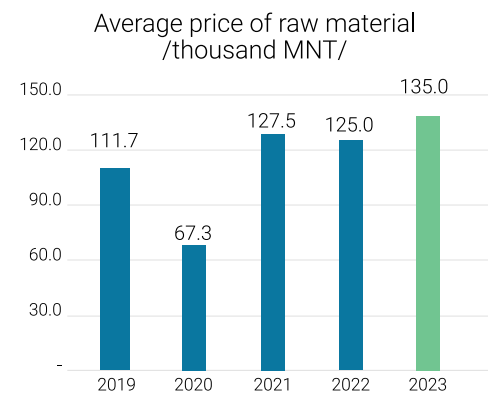
CASHMERE SECTOR STATISTICS FOR THE LAST 5 YEARS IN MONGOLIA



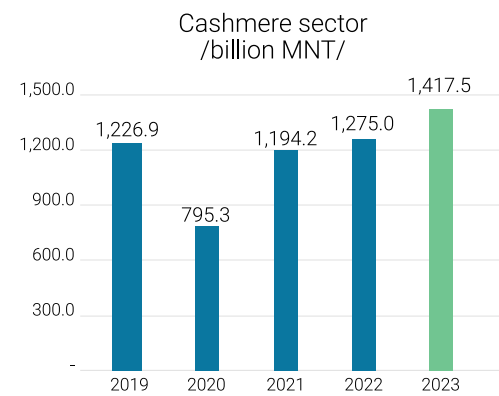
Source: National Statistics Office



Source: National Statistics Office
(Note: Calculation method applied)



Source: Mongolian Wool and Cashmere Association



/Calculated by average rate of raw material/





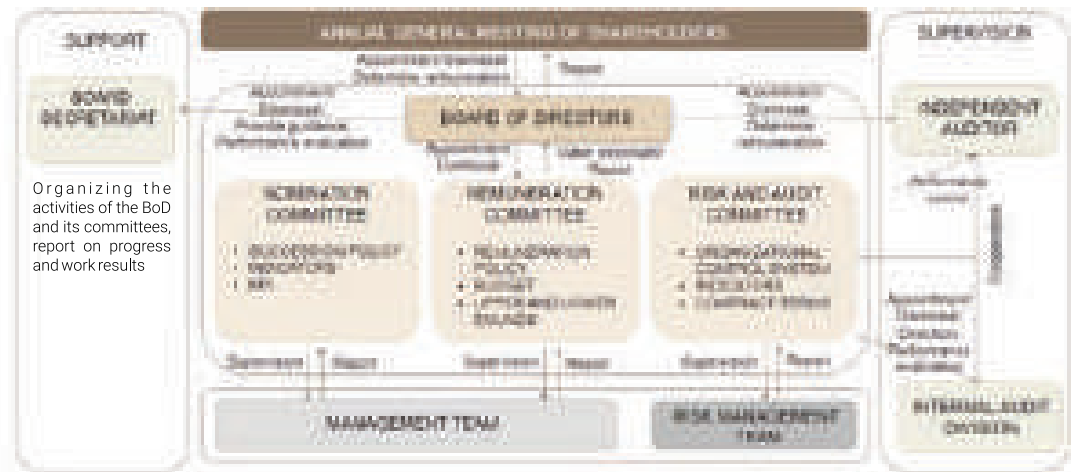
GOVERNANCE



GOVERNANCE STRUCTURE AND ACTIVITIES

The governance structure of Gobi JSC ensures the balance of interests among shareholders, management, and other stakeholders, defining, implementing, and monitoring the company's objectives and main activities.

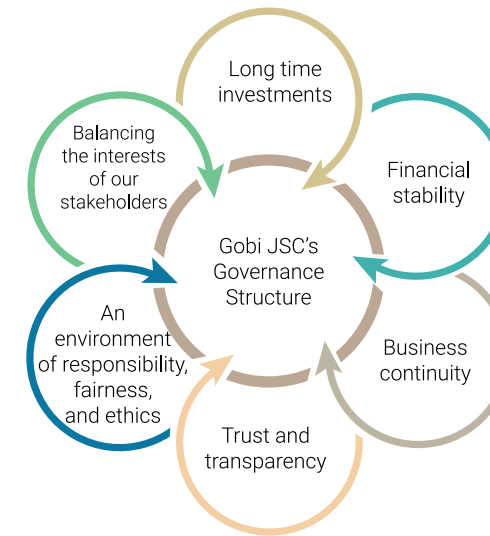
As a publicly listed company, we continuously improve our governance system by learning from the Company Law, Mongolia's corporate governance code, and international best practices, aiming to lead in corporate governance within our country by adhering to relevant laws and regulations.



The Board of Directors (BoD) is appointed by the General Meeting of Shareholders and aims to protect the interests of shareholders and investors, enhance capital returns and efficiency, oversee the activities of executive management, and provide optimal direction. Three committees operate under the BoD: the Nomination Committee, the Compensation Committee, and the Risk and Audit Committee. Each committee implements policies, oversees management activities, evaluates results, and reports to the BoD.

An Internal Audit Division operates under the Risk and Audit Committee to implement independent internal controls company-wide. The BoD has a Board office composed of a Secretary and a Specialist. The Secretariat organizes and prepares BoD and committee meetings, ensures transparency of public information, develops governance policy documents, monitors their implementation, addresses shareholder suggestions, and provides necessary information.

GOVERNANCE POLICY



Gobi JSC aims to establish a fair, ethical governance system that ensures long-term investment, financial stability, and business continuity. Our policy is based on trust, transparency, and accountability, balancing the interests of all stakeholders.

This policy encompasses nine main areas, outlining our governance objectives and principles:

Governance Objectives

1. Protect the interests of stakeholders.
2. Establish an optimal BoD structure and organization.
3. Ensure transparency of reporting and information.
4. Operate with fairness and ethics.
5. Develop a robust control system.
6. Foster corporate culture.
7. Establish a fair compensation system.
8. Promote sustainable development.
9. Continuously improve corporate governance.

Governance Principles

- Ensure transparency.
- Balance the interests of all stakeholders.
- Comply with laws and regulations.
- Maintain fairness and ethics.
- Establish control and accountability systems.
- Foster organizational culture.
- Implement sustainable development principles.
- Continuously improve.

In 2023, we undertook several initiatives to strengthen and enhance corporate governance:



ENHANCEMENTS IN GOVERNANCE ACTIVITIES

- Prepared and submitted two reports on the implementation of the Corporate Governance Code to the Financial Regulatory Commission for review and verification.
- For the second consecutive year, we conducted a BONZ evaluation report and for the first time, issued a Sustainable Development Report, disseminated through the Mongolian Stock Exchange and the company's website.
- Improved the information content for the Annual Report and the company website according to the principles of the Corporate Governance Code.
- The General Meeting of Shareholders approved the 2023 salary budget for BoD members.
- Implemented and regularly improved the whistleblower system.
- Organized two shareholder factory visits to increase shareholder engagement.
- Developed and disseminated a "Shareholder Handbook" to provide information about the company.
- Enabled shareholders to check their registration, receive dividend balances, and access timely company-related news and reports through the company website.
- Launched an English version of the company website to ensure transparency for international investors.

STAKEHOLDER ENGAGEMENT PLAN

In November 2023, Gobi JSC's BoD approved the "Stakeholder Engagement Plan" to achieve the objectives set out in the governance policy. This plan emphasizes inclusivity, transparency, mutual respect, accountability, and the pursuit of sustainable development goals across all projects and operations.

Operational Principles of the Stakeholder Management Plan

Gobi JSC emphasizes the equal participation of all parties in its activities and projects, values the transparency of its operations, embraces diversity, and engages in open and respectful dialogue with society, the environment, and stakeholders. The company acts responsibly, considering the impact of its actions and results, and strives for the goal of sustainable development.

Stakeholder Engagement Objectives

- Establish trust and transparent relationships with residents near the factory, suppliers, herders, customers, government agencies, research institutions, NGOs, investors, banks, and civil society organizations.
- Strengthen the capabilities of suppliers and herders, fostering environmentally friendly, human rights-respecting traditional practices, and active cooperation.

BENEFITS OF STAKEHOLDER ENGAGEMENT

Nº	Stakeholder	Benefits of Engagement	Communication Methods
1.	Consumers (domestic, international, online)	Develop meaningful interactive relationships to create unique experiences and enhance satisfaction	Advertising, product shows, surveys, virtual meetings, factory tours, open days, website
2.	Investors (shareholders, BoD)	Build trust through open communication, transparent reporting, and active participation, increasing long-term value	Performance reports, individual/group meetings, annual report meetings
3.	Financial Institutions	Strengthen strategic partnerships to secure financing and leverage expertise for business expansion	Individual meetings, website, seminars
4.	Government Agencies	Collaborate on joint policies and projects to achieve positive outcomes and comply with laws	Public meetings, website, social media channels
5.	Local Residents	Share transparent information and enhance awareness of climate change and green development	Public meetings, discussions, website, social media, open days

6.	Business Partners	Encourage innovation, share best practices, and maintain healthy competition	Conferences, discussions, knowledge exchange tours
7.	Suppliers (herders, cooperatives, companies)	Foster sustainable partnerships, ensuring responsible sourcing and fair trade practices	Training, factory tours, open days, targeted discussions, capacity building programs
8.	Contractors	Emphasize ethical practices, reduce environmental impact, and ensure responsible sourcing	Individual discussions, surveys, targeted seminars, supplier development programs
9.	Civil Society Organizations	Engage in policy development and collaborative efforts to address societal challenges	Factory tours, themed seminars, individual meetings, joint projects
10.	Media	Enhance brand visibility and influence public perception through strategic communication	Interviews, broadcasts, content creation, articles in newspapers/magazines, website, public education projects
11.	Vulnerable Groups	Contribute to social integration, provide gender equality opportunities, and improve information accessibility	Targeted group discussions, training, project programs, unique communication methods

STAKEHOLDER ENGAGEMENT PLAN / 2023-2025/

Nº	Stakeholders	Purpose	Communication and Cooperation	Frequency
1.	Local residents and factory employees	Inform about operations, collect feedback, and build trust among stakeholders	<ul style="list-style-type: none"> Install Gobi JSC Information Board at the local administrative office to provide information on operations, employment, projects, public health, and safety regulations, and feedback mechanisms 	Quarterly, Semi-annually
2.	Suppliers (herders, cooperatives, companies)	Ensure raw material quality and educate on human rights and environmental protection	<ul style="list-style-type: none"> Organize factory tours for familiarization, training sessions on human rights and environmental protection, and feedback mechanisms 	Semi-annually, Annually
3.	Contractors and their employees	Foster the understanding of fair labor practices and respect for human rights	<ul style="list-style-type: none"> Discuss and approve contractor management plans including fair labor and environmental requirements, and feedback mechanisms 	As needed
4.	Clients and consumers	Promote responsible consumption and build trust	<ul style="list-style-type: none"> Organize open house days, set up customer information boards in stores, and feedback mechanisms 	Annually
5.	Vulnerable groups	Support social integration and practices for people with disabilities and other vulnerable groups	<ul style="list-style-type: none"> Organize social impact activities, collaborate with specialized schools and kindergartens, explore the use of Braille in branding information 	As needed

INVESTOR RELATIONS PROGRAM

As part of Gobi JSC's governance policy aimed at protecting stakeholder interests and implementing the corporate governance code, the Board of Directors approved the "Investor Relations Program" in April 2023. The program outlines the following activities, which are actively being implemented:

- Develop and enhance channels for delivering information and collecting feedback from investors and stakeholders.
- Provide accurate and timely financial and operational information without ambiguity.
- Improve investor knowledge about the capital market through guides addressing common issues.
- Organize factory tours for investors to familiarize them with company operations.
- Provide information in English and other necessary languages for foreign investors.
- Report on the implementation of the program.

SHAREHOLDER FACTORY TOURS

In 2023, as part of the Investor Relations Program, Gobi JSC organized "Shareholder Factory Visits" twice, in April and September, allowing shareholders to familiarize themselves with company operations and production processes firsthand. These visits are planned to continue at least twice annually.



SHAREHOLDER HANDBOOK



In September 2023, Gobi JSC published the "Shareholder Guide" to improve investors' understanding of the capital market, address common issues, and inform shareholders about their rights and responsibilities. The guide is available through the Mongolian Stock Exchange and the company's website.

CORPORATE GOVERNANCE CODE IMPLEMENTATION EVALUATION

Following the Financial Regulatory Commission's updated "Corporate Governance Code" in March 2022, Gobi JSC's Board of Directors assessed the code's implementation as of December 31, 2023. The assessment results were verified by the Financial Regulatory Commission.

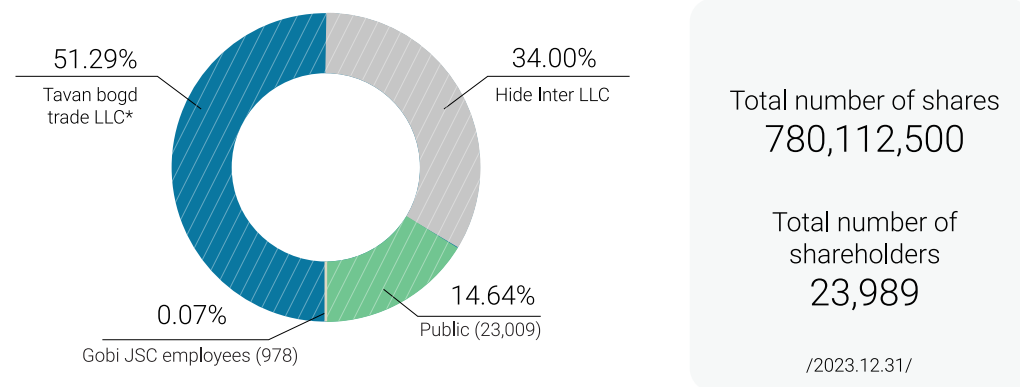
GOBI JSC EVALUATION

№	Title	Points Available	2022.12.31		2023.12.31		Changes %
			Self-assessment Points	Implementation Percentage	FRC Points	Implementation Percentage	
1.	Board Structure and Organization	12	10	83.3%	11	91.7%	8.4%
2.	Board Committees and their Roles	10	9	90.0%	9	90.0%	-
3.	Transparency of Reporting and Information	6	6	100.0%	6	100.0%	-
4.	Audit and Control System	6	6	100.0%	6	100.0%	-
5.	Risk Management	8	8	100.0%	8	100.0%	-
6.	Compensation of Authorized Personnel	6	4	66.7%	6	100.0%	33.3%
7.	Stakeholder Interests	8	6	75.0%	8	100.0%	25.0%
8.	Company Culture	6	6	100.0%	6	100.0%	-
9.	Shareholder Rights	10	9	90.0%	10	100.0%	10.0%
Total		72	64	88.9%	70	97.2%	8.3%

According to the evaluation methodology, as of December 31, 2023, Gobi JSC's "Corporate Governance Code" implementation was rated 97.2%, showing an 8.3% improvement from the previous year and indicating a stable and risk-free governance status. This places Gobi JSC at the top among publicly traded companies in Mongolia.

Detailed governance evaluation reports can be accessed on the MSE and the company's website.

SHAREHOLDERS



*Tavan Bogd Trade LLC was renamed Tavan Bogd Holdings LLC in January 2024.

SIGNIFICANT SHAREHOLDERS

SHAREHOLDER NAME	2022.12.31		2023.12.31	
	Number of shares	Ownership %	Number of shares	Ownership %
Tavan Bogd Trade LLC	392,640,072	50.33%	400,140,072	51.29%
Hide Inter LLC	265,238,300	34.00%	265,238,300	34.00%

Note: A significant shareholder is an individual or entity holding 5% or more of the total voting shares issued by the company.

Hide Inter LLC is an investment company operating in Japan.

Tavan Bogd Trade LLC is the parent company of Tavan Bogd Group, established in 1997 to define group-wide policies and strategies, develop new businesses, and provide management support to subsidiaries. Tavan Bogd Group, with over 12,000 employees, is a leading group in Mongolia..

EMPLOYEE STOCK OWNERSHIP PROGRAM

In June 2021, Gobi JSC officially launched the "Employee Share Ownership Program." As of July 20, 2021, the company granted shares to its employees, allowing them to have a stake in the wealth they help create. This program aims to increase employee satisfaction and stability by enabling employees to share in the company's success. Additionally, it seeks to enhance the participation of every employee in the company's growth.

As of December 31, 2023, 978 employees collectively own 532,700 shares, representing 0.07% of the total shares. The Board of Directors and company management plan to continue implementing this program regularly.

INFORMATION OF RELATED PARTIES

Nº	COMPANY NAME	Nº	COMPANY NAME
1	Tavan Bogd Trade LLC	20	Tavan Bogd Residents LLC
2	Tavan Bogd International LLC	21	Mon Beef LLC
3	Tavan Bogd Distribution LLC	22	Tavan Bogd Finance NBFO LLC
4	Mongol Mashin Concern LLC	23	Tavan Bogd Capital UTsK LLC
5	Tavan Bogd LLC	24	Tavan Bogd Building Supply LLC
6	Airlink Mongolia LLC	25	Tavan Bogd Mon Meat LLC
7	Ulaanbaatar Guril LLC	26	Tavan Bogd Retirement Savings LLC
8	Juulchin LLC	27	Naran Credit NBFO LLC
9	Juulchin Duty Free JSC	28	Tavan Bogd Auto Marker LLC
10	Five Stars in Kharkhorin LLC	29	Ulaanbaatar Print LLC
11	Tavan Bogd Hot Pot LLC	30	TBMO LLC
12	Khan Palace LLC	31	Khan Bank LLC
13	Sergelen Resort LLC	32	Zamine Services LLC
14	Tavan Bogd Foods LLC	33	Data Bank LLC
15	Tavan Bogd Foods Pizza LLC	34	Temujin Complex LLC
16	Food Service Solutions LLC	35	Juulchin Tourism Corporation LLC
17	Tavan Bogd Solutions LLC	36	Utaagui Orchin LLC
18	Tavan Bogd Property LLC	37	R.E.D Agency LLC
19	Tavan Bogd House LLC	38	Tok Tok LLC

*Tavan Bogd Trade LLC was renamed Tavan Bogd Holdings LLC in January 2024.

INFORMATION OF ULTIMATE BENEFICIAL OWNER

Nº	Full Name	Citizenship	Ownership percentage	
			Individual	Related parties
1	Tsagaach BAATARSAIKHAN	Mongolia	0.006%	Tavan Bogd Trade LLC 51.29% Tavan Bogd LLC 0.40% Tavan Bogd Capital LLC 0.04%
2	Hideo SAWADA	Japan	-	Hide Inter LLC 34.00%

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The primary avenue for shareholders to exercise their rights at Gobi JSC is the Annual General Meeting of the Shareholders, which acts as the company's highest governing authority.

2023 ANNUAL GENERAL MEETING

2023 Annual General Meeting of Gobi JSC took place at Great Hall of MNCCI on April 20, 2023 at 10:00 a.m.

Meeting attendance

The meeting had a quorum of 88.50%, with a total of 897 shareholders participating. Among them, 829 shareholders with 284,381,205 voting rights (36.45%) participated through pre-voting, and 68 shareholders with 406,030,659 voting rights (52.05%) participated in person on the day of the meeting, totaling 690,411,864 voting rights.

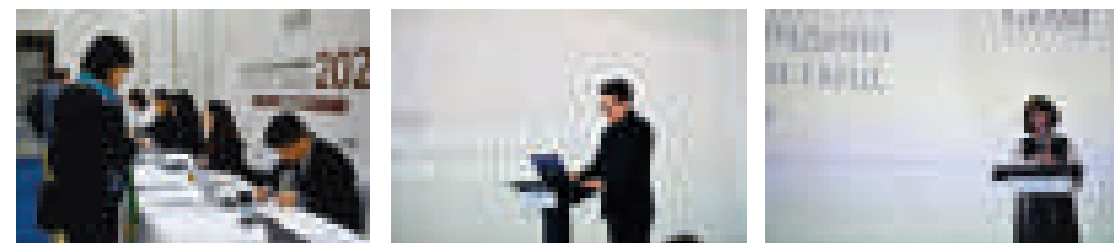
Meeting agenda items

1. 2022 Operational and Financial Performance Report of Gobi JSC
2. Resolution of the Board of Directors not to distribute dividends from the 2022 financial results
3. Conclusion of the Board of Directors on the 2022 Operational and Financial Reports of the company
4. 2022 Work Report of the Board of Directors
5. Project to revise the salary levels of the Board members 2023 Salary Budget of the Board of Directors
6. Directors
7. Introduction of candidates for the Board of Directors

Meeting resolutions

The shareholders attentively reviewed the reports pertaining to the aforementioned matters, engaged in discussions, and expressed their questions and comments. The voting process was conducted by ballot.

1. With an overwhelming majority vote of 99.99%, the board of directors affirmed that the executive management team of Gobi JSC had effectively utilized their available resources to successfully attain the predetermined objectives in 2022.
2. The proposal to revise the salaries of the Board of Directors members was approved with a 99.98% vote.
3. The 2023 salary budget for the Board of Directors was approved with a 99.99% vote.
4. The following individuals were appointed for a 3-year term:
Independent Directors: D. Gerelmaa, D. Khurelbaatar, A. Jargalmaa, Takeshi Kambe
Regular Directors: Ts. Batarsaihan, D. Khulan, B. Amarsaihan, Ts. Orgilbold, Hideo Sawada



EXPENSES OF THE ANNUAL GENERAL MEETING

/thousand MNT/

TYPE OF THE EXPENSE	2022	2023	Changes %
Expenses of the annual general meeting	21,825	19,448	-11%

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD

INDEPENDENT MEMBERS OF THE BOARD



Damba
GERELMAA

Chairwoman of the Board, Member of the Risk and Audit Committee, Member of the Nomination Committee

PROFESSION
Economist

EDUCATION
1982-1988: Moscow Institute of Telecommunications, Russia, Bachelor's degree in Engineering Economics
2000-2003: Management Academy of the Government Implementing Agency of Mongolia, Doctor of Management Science

WORK EXPERIENCE
1988-1992: Economist, Radio Television Technical Center
1992-1994: Lecturer, Business Administration Department, College of Economic Development
1994-2003: Head of Department, Business Administration Department, College of Economic Development
2003-2006: Accountant, Permanent Mission of Mongolia to the United Nations, Embassy in Switzerland
2006-2009: Vice President for Education and Research, School of Economic Studies
2009-2015: Vice President for Education, School of Economic Studies
2015-present: Professor, Business Administration Department, School of Economic Studies
2022-present: Professor, Graduate School, School of Economic Studies
2013-present: Board Member, Gobi JSC

SHAREHOLDING IN GOBI JSC
Does not hold shares.



Dambijav
KHURELBAATAR

Chairman of the Nomination Committee, Chairman of the Remuneration Committee

PROFESSION
Accountant, Economist, Financial Specialist

EDUCATION
1979-1981: Bachelor's degree in Accounting, College of Commerce
1985-1989: Master's degree in Economics and Finance, Baikal State University, Russia (Irkutsk Institute of National Economy)

WORK EXPERIENCE
1981-1984: National Bank, State Inspector Auditor
1990-2005: Director of Customer Service Department, Trade and Development Bank
2005-2007: Deputy Director, Mongol Post Bank
2008-2016: Board Member, Gobi JSC
2007-2020: Deputy CEO, Trade and Development Bank
2020-2022: Head of the Board Secretariat, Trade and Development Bank
2022-present: Board Member, Gobi JSC

SHAREHOLDING IN GOBI JSC
4,800 shares (0.0006%)



Altangerel
JARGALMAA

Chairwoman of the Risk and Audit Committee, Member of the Remuneration Committee

PROFESSION
Accountant

EDUCATION

2008-2012: Bachelor's degree in Accounting, Oxford Brookes University
2010-2012: ACCA Professional Level Exams (Association of Chartered Certified Accountants)
2012-2015: Master's degree in Business Administration, University of Finance and Economics
2013-2015: MBA in Global Management, Handong Global University

WORK EXPERIENCE

2012-2017: Lecturer, University of Finance and Economics
2013-2014: Accountant, Itezmon LLC
2014: Consultant, Iarudi Consulting LLC
2016-2018: Accountant, Bury Medved LLC
2015-present: Accountant, Dunge LLC
2017-present: Senior Lecturer and Program Director, GAPE (Global Academy for Professional Education), ACCA
2019-present: Board Member, Gobi JSC

Shareholding in Gobi JSC
Does not hold shares.



Takeshi
KAMBE

Member of the Remuneration Committee

PROFESSION
Economist

EDUCATION

1978-1981: Bachelor's degree in Economics, Keio University, Japan
1981-1985: Master's degree in Economics, Keio University, Japan

WORK EXPERIENCE

1985-1986: HR Manager, Asahi Mutual Life Insurance, Japan
1986-1989: Administrative Manager of Nagano Branch, Sales Manager of Kyoto Branch
1989-1992: Loan Specialist for the Economic Fund of Foreign Cooperation, Japan Bank for International Cooperation, worked on projects in Bangladesh, Sri Lanka, and Myanmar with ADB and the World Bank
1992-1995: Investment Manager of International Investment Department, Asian Insurance Company
1995-1998: Investment Leader in Hong Kong
1999-2000: Chairman of the Management Council, Asian Insurance Joint Venture Company
2000-2002: Credit and Research Manager, Asian Real Estate LLC
2002-2006: Manager responsible for commercial loans to small and medium corporations, Asian Insurance Joint Venture Company
2006-present: Commercial Control Manager, Asian Insurance Joint Venture Company
2008-present: Board Member, Gobi JSC

Shareholding in Gobi JSC
Does not hold shares.

REGULAR BOARD MEMBERS



Tsagaach
BAATARSAIKHAN

CEO

PROFESSION
Engineer

EDUCATION

1984-1988: Bachelor's degree in Telecommunications Engineering, Polytechnic University of Mongolia
1989-1993: Bachelor's degree in Electronics Engineering, Tokyo University of Communications, Japan

WORK EXPERIENCE

1993-1997: Executive Director, Altai Company, Mongolia-Japan Joint Venture
1997-present: President of Tavan Bogd Group, CEO of Tavan Bogd Trade LLC
2001-2003: Vice President, MIAT Company
2008-present: CEO, Gobi JSC
2009-present: Board Member, Khan Bank
2007-present: Board Member, Gobi JSC

SHAREHOLDING IN GOBI JSC

Individual: 50,000 shares (0.006%)
Affiliated Entities:
Tavan Bogd Trade LLC: 400,140,072 shares (51.29%)
Tavan Bogd LLC: 3,140,239 shares (0.40%)
Tavan Bogd Capital LLC: 278,030 shares (0.04%)



Dashdavaa
KHULAN

Member of the Risk and Audit Committee

PROFESSION

International Banking and Finance Specialist

EDUCATION

1985-1990: Bachelor's degree in International Banking and Finance, Moscow Financial Institute, Russia

WORK EXPERIENCE

1990-1992: Economist, Department of Foreign Economic Relations, Ministry of Finance, Mongolia
1993-1997: Representative and Trade Manager, Gobi JSC, Tokyo Branch
1997-2000: Deputy Director, Tavan Bogd Trade LLC
2000-2002: Deputy Director, Trade and Development Bank
2003-2021: First Vice President, Tavan Bogd Group
2003-2021: Board Member, Khan Bank
2009-present: Honorary Consul of Luxembourg to Mongolia
2021-present: Vice Chairman of the Board, Khan Bank
2021-present: Chairman of the Board, Tavan Bogd Group
2007-present: Board Member, Gobi JSC

SHAREHOLDING IN GOBI JSC

Individual: 12,973,022 shares (1.66%)
Affiliated Entities:
Tavan Bogd Trade LLC: 400,140,072 shares (51.29%)
Tavan Bogd LLC: 3,140,239 shares (0.40%)
Tavan Bogd Capital LLC: 278,030 shares (0.04%)



Baatarsaikhan
AMARSAIKHAN

*Member of the
Remuneration Committee,
Chief Strategy and
Growth Officer*

PROFESSION

Business Administration and Entrepreneurship

EDUCATION

2016-2019: Bachelor's degree in Business Administration and Entrepreneurship, University of Westminster, UK

WORK EXPERIENCE

2019-2023: CEO, Gobi Cashmere Europe LLC
2022-present: CEO, Gobi Cashmere UK LLC
2022-present: Director of Strategy and Business Development, Tavan Bogd Trade LLC
2022-present: Director of Strategy and Development, Gobi JSC
2023-present: Board Member, Gobi JSC

SHAREHOLDING IN GOBI JSC

Individual: 1,000 shares (0.0001%)
Affiliated Entities:
Tavan Bogd Trade LLC: 400,140,072 shares (51.29%)
Tavan Bogd LLC: 3,140,239 shares (0.40%)
Tavan Bogd Capital LLC: 278,030 shares (0.04%)



Tsogtgerel
ORGILBOLD

*Member of the
Nomination Committee,
Deputy CEO & Executive
VP: Global Sales*

PROFESSION

International Relations Specialist

EDUCATION

2011-2014: Bachelor's degree in International Relations, Temple University, Japan

WORK EXPERIENCE

2014: Specialist in Charge of Free Zones, Ministry of Economic Development
2016: Business Development Manager, Tavan Bogd Trade LLC
2016-2017: CEO, Juulchin Duty Free JSC
2017-2019: CEO, Goyo LLC
2019-2021: Deputy Director of Operations, Gobi JSC
2021-present: Director, International Sales, Gobi JSC
2021-present: Board Member, Gobi JSC

SHAREHOLDING IN GOBI JSC

Individual: 1,000 shares (0.0001%)
Affiliated Entities:
Tavan Bogd Trade LLC: 400,140,072 shares (51.29%)
Tavan Bogd LLC: 3,140,239 shares (0.40%)
Tavan Bogd Capital LLC: 278,030 shares (0.04%)



Hideo
SAWADA

PROFESSION

Economist

EDUCATION

1973-1976: Germany, Mainz University, Economist, Bachelor

WORK EXPERIENCE

1980-1996: Founder and Director of International Tours Company
1996-1999: Owner of the Wotomac Hotel in Australia, Founder and Chairman of the Board of Directors of Skymark Airlines
1999-2001: President of H.I.S. Co., Ltd.
2000: President of Skymark Co., Ltd.
2002: President of H.I.S. Travel Company
2003-2021: Chairman of the Board of Directors of Khan Bank
Since 2004: President of H.S. Securities LLC
Since 2009: Member of the Board of Directors of Gobi Corporation

SHAREHOLDING IN GOBI CORPORATION

Individual: Does not hold shares.
Legal entities with a common interest:
Hide Inter LLC: 265,238,300 shares (34.00%)

CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS

As the terms of the members of the Board of Directors of Gobi Corporation expired at the regular meeting of shareholders in 2023, the issue of appointing members to the Board was discussed at this meeting. As a result, independent director M. Bayar and regular director J. Oyunchimeg were dismissed from the Board, and B. Amarsaikhan and Ts. Orgilbold were newly elected as regular board members.

SELECTION AND APPOINTMENT OF BOARD MEMBERS

According to the company's charter, the Board members of Gobi Corporation are elected by cumulative voting at the shareholders' meeting for a term of 3 years.

The Nomination Committee of the Board reviews the participation, work reports, and performance of the Board members and makes decisions on whether to re-nominate the members or make changes in the composition based on the company's long-term strategic planning and business trends.

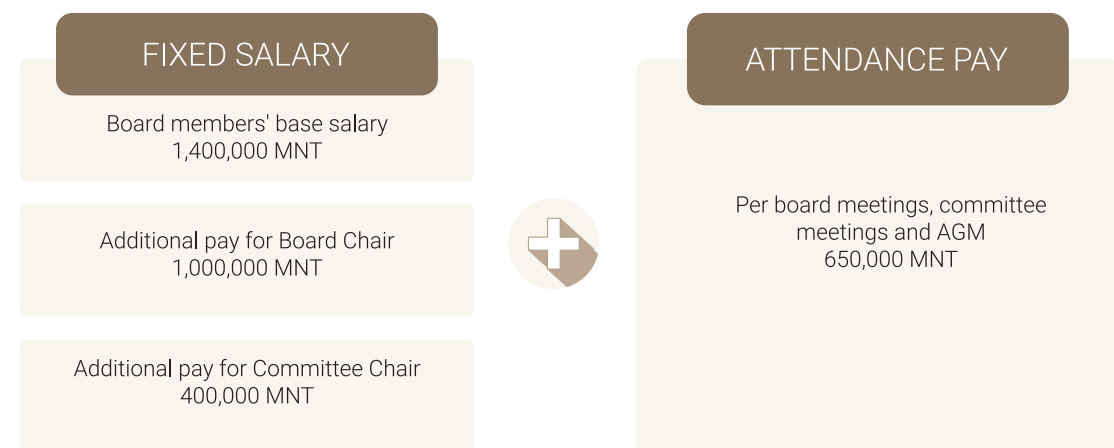
According to the "Procedure for Selecting and Nominating Board Members" of Gobi Corporation, if the Nomination Committee decides that changes are needed in the composition of the Board, they determine the number of regular and independent members to be newly nominated, and the additional qualifications required. The selection process for independent members is conducted openly or from candidates who participated in previous selections. Candidates are evaluated, discussed, and the list of nominees is approved.

In cases where a Board member is unable to perform their duties for an extended period, requests to be dismissed, or passes away, an interim member is appointed by the Board until the next shareholders' meeting, where the appointment is confirmed. The interim member must meet the requirements for an independent member and will have all the rights and duties of a Board member.

BOARD MEMBERS REMUNERATION

The Board members' compensation is determined by the Remuneration Committee of the Board and proposed to the Shareholders' Meeting for approval. Gobi JSC's Board members receive a regular monthly salary and attendance-based remuneration.

Attendance pay The 2023 salary budget presented below was approved at the AGM in April 2023.



2023 REMUNERATION OF THE BoD

Board remuneration	2022 Performance	2023		Changes %	
		Budget*	Performance	2022P/2023P	2022B/2023P
Fixed salary	128,400	161,200	161,200	25.5%	0.0%
Attendance pay	34,500	41,800	37,200	7.8%	-11%
Additional pay	10,000	-	-	-	-
Social Insurance	22,513	30,450	25,485	13.2%	-16.3%
Total	195,413	233,450	223,885	14.6%	-4.1%

* The budget for Board members' 2023 compensation was approved at the AGM in April 2023.

REMUNERATION PRINCIPLES

At the year-end meeting of the Remuneration Committee, the principles for Board members' compensation and incentives were determined as follows:

- Board members will not receive any performance-based incentives.
- To encourage the participation and accountability of independent directors, their base salary will be higher than that of regular directors.
- Regular directors who are part of the management team will not receive additional benefits as Board members.

Following these principles, the base salary for independent directors will be discussed and decided at the 2024 Annual Shareholders' Meeting.

BOARD ACTIVITIES REPORT FOR 2023

MEETING INFORMATION

Meeting	Regular	Irregular	Discussed items	Meeting Decisions	Suggestions	Tasks	Resolutions
Board meeting	6	10	59	51	19	25	41
Risk and audit committee meeting	4	1	24	17	17	5	5
Nomination committee meeting	2	1	18	14	7	6	3
Remuneration committee meeting	2	-	13	8	4	1	-
Total	14	11	114	90	47	37	49

Gobi JSC's Board and its committees held a total of 14 regular meetings and 11 extraordinary meetings in 2023. They actively participated, discussing 114 issues, making 90 decisions, and adopting 49 resolutions. The Board provided 47 recommendations and 37 tasks to management and monitored their implementation, achieving a 100% completion rate.

MEETING ATTENDANCE

Nº	Name	Committee Membership	Board Meeting Attendance	Committee Meeting Attendance
1.	D. Gerelmaa	Risk and Audit Committee Member, Nomination Committee Member	100%	100%
2.	D. Khurelbaatar	Nomination Committee Chairman, Remuneration Committee Chairman	100%	100%
3.	A. Jargalmaa	Risk and Audit Committee Chairwoman, Nomination Committee Member	100%	100%
4.	Takeshi Kambe	Remuneration Committee Member	100%	100%
5.	Ts. Batarsaihan	Nomination Committee Member /until 2023, May/	100%	100%
6.	D. Khulan	Risk and Audit Committee Member	100%	100%
7.	B. Amarsaikhan	Remuneration Committee Member	100%	100%
8.	Ts. Orgilbold	Nomination Committee Member	100%	100%
9.	Hideo Sawada	-	100%	-

Note: The two members residing in Japan received information about the regular and special Board meetings via email and submitted their opinions by email, thus their attendance is considered as present.

FREQUENCY OF MEETINGS

Regular Meetings: Board of Directors: once every two months (6 times a year), one of which is an independent members meeting; Risk and Audit Committee: once per quarter (4 times a year); Nomination Committee: once every six months (2 times a year); Remuneration Committee: once every six months (2 times a year).

Irregular Meetings: Irregular meetings of the Board and committees can be convened at any time at the initiative and requirement of the Board Chairman, members, CEO, or the Management team members.

REPORT ON THE BOARD'S ACTIVITIES IN 2023

In 2023, the Board of Directors of Gobi Corporation organized 6 regular meetings and 10 special meetings, discussing 59 issues, making 51 decisions, and passing 41 resolutions. They provided 19 recommendations and assigned 25 tasks to the management, closely monitoring their implementation.

The Board approved the company's business plan at the beginning of the year and monitored its implementation through monthly financial and performance reports. In April, the Board discussed and approved the company's medium-term strategic plan. They also improved supervision and management within the framework of ESG activities, reviewed reports on ESG three times, and monitored the implementation of commitments related to sustainable development.

To improve corporate governance, the Board approved an "Investor Relations Program" in April and a "Stakeholder Cooperation Management Plan" in November. They also updated the composition of the three committees under the Board and approved updated operating procedures.

One of the Board's important duties is to protect shareholders' interests and prevent conflicts of interest. In November, the Board approved the "Conflict of Interest Transaction Procedure" and ensured that all transactions within the company were conducted legally, reporting any conflict of interest transactions to the Financial Regulatory Commission and the Mongolian Stock Exchange, and informing the public.

In 2023, Gobi Corporation implemented step-by-step activities to improve the company's culture, supported by the Board, which approved the necessary budget and focused on creating a comfortable working environment and gradually increasing salaries.



BOARD EVALUATION AND MEMBER SELF-ASSESSMENT

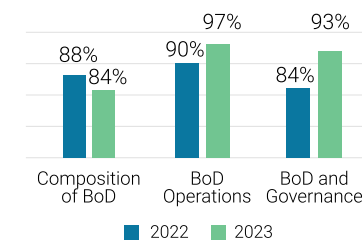
Since 2015, Gobi JSC has conducted annual self-assessments of its Board of Directors (BoD) to continually improve its operations. Starting in 2018, the company also began conducting self-assessments of individual board members. These assessments are developed by the Nomination Committee, based on international best practices and principles of corporate governance.

By conducting these annual assessments, the BoD can evaluate its performance, identify strengths and areas for improvement, and develop future plans to ensure continuous improvement.

BoD EVALUATION

The BoD evaluation consists of 30 questions divided into three groups: Composition of the BoD (4 questions), BoD Operations (16 questions), BoD and Governance (10 questions) Additionally, there is one open-ended question.

№	Questions	2022		2023	
		Score	%	Score	%
I	Composition of the BoD (4 questions)	4.4	88%	4.2	84%
II	BoD Operations (16 questions)	4.5	90%	4.8	97%
	1. Meetings	4.6	92%	4.7	94%
	2. BoD Committees	4.3	85%	4.7	94%
	3. BoD Chair	4.6	92%	4.9	98%
	4. BoD Secretary	4.7	93%	5.0	100%
III	BoD and Governance (10 questions)	4.5	84%	4.6	93%
Overall Average		4.3	87%	4.6	94%

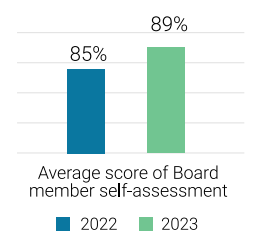


In 2023, the BoD composition score decreased by 4% to 84%, while the BoD operations score increased by 7% to 97%, and the BoD and governance score increased by 9% to 93%. The overall average score for the BoD in 2023 was 94%, up by 7% from the previous year.

BOARD MEMBER SELF-ASSESSMENT

The self-assessment for board members includes 15 questions related to their roles and participation, as well as one open-ended question about their initiatives and results related to BoD and company operations.

By conducting annual self-assessments, board members can identify their strengths and weaknesses, define future areas of focus, and evaluate their own performance. These self-assessments also provide the Nomination Committee with a metric to assess the activities of board members. In 2023, the average self-assessment score for board members increased by 4% from the previous year, reaching 89%.



PARTICIPATION OF INDEPENDENT MEMBERS

At the beginning of each year, the independent directors of Gobi JSC's Board of Directors outline their focus areas and plan their activities for the year. At the end of the year, they review and discuss the results of their initiatives related to the company's and the board's activities. To enhance the participation of independent directors, we have been holding an annual meeting specifically for them since 2022. In December 2023, the independent directors convened, familiarized themselves with the production processes in detail, and independently discussed issues related to the company's operations, providing suggestions for improvements.

COMMITTEE REPORTS

NOMINATION COMMITTEE

PURPOSE

The purpose of the Nomination Committee under the Board of Directors is to ensure the succession and stability of key positions, including the Board members, CEO, and other management team leaders. The committee aims to define job descriptions, contract terms, and performance evaluations, providing oversight and guidance in these areas.

In August 2023, the committee updated its operational procedures in accordance with the Corporate Governance Code, adding responsibilities for handling information received through the whistleblowing system related to key positions.

COMPOSITION

<p style="text-align: center;">Chair:</p> <p style="text-align: center;">Independent member D.Khurelbaatar</p>	<p style="text-align: center;">Members:</p> <p style="text-align: center;">Independent member D.Gerelmaa Regular member Ts.Orgilbold</p>
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Changes in Composition:

Following changes in the composition of the Board at the 2023 Shareholders' Meeting, Ts. Orgilbold was appointed to the Nomination Committee in place of Ts. Baatarsaihan as per Board Resolution No. 17 dated May 18, 2023.

2023 WORK REPORT

The Nomination Committee held two regular meetings in 2023, discussing 18 issues and making 14 decisions. The committee issued 7 recommendations and 6 tasks to relevant officials and monitored their implementation, adopting 3 resolutions.

During the first meeting of the year, the committee identified and approved the candidates for the Board of Directors to be elected at the annual Shareholders' Meeting in April, where the directors were elected for a three-year term. The committee updated the terms of the management contract with the CEO, having the contract model approved by the Board and subsequently renewing the contract with the CEO.

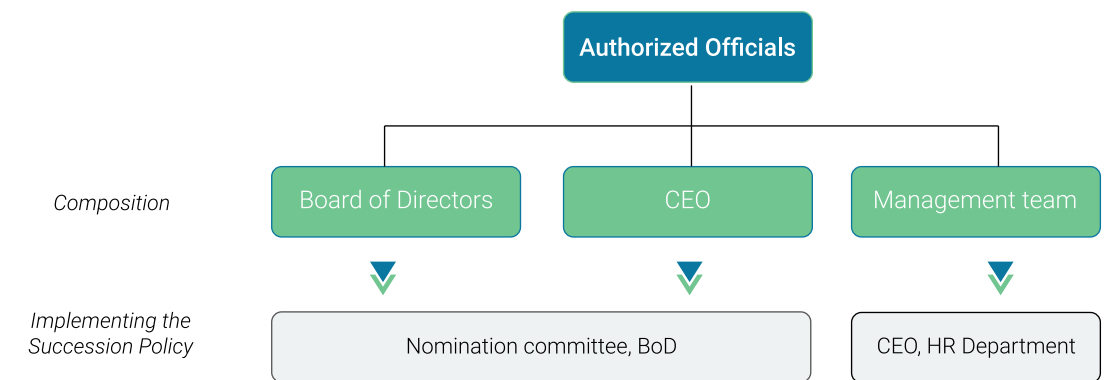
The committee conducted self-assessments of the Board and its members in 2023, reviewing the results to improve the operations of the Board and its committees at the year-end meeting. As part of their oversight responsibilities, they reviewed the semi-annual and annual reports of the management team, assessed by the CEO, and provided recommendations for improvement. Two management leaders were nominated and awarded the Board's recognition for their leadership and success based on their annual reports and performance.

The committee addressed information related to key positions received through the whistle blowing system, providing recommendations and tasks to relevant management officials and monitoring their implementation.

SUCCESSION POLICY FOR AUTHORIZED OFFICIALS

The Nomination Committee, in accordance with the Corporate Governance Code, developed a succession policy for key positions, approved at the February 2023 Board meeting. This policy aims to ensure the continuity and stability of key roles within Gobi JSC, identifying principles, objectives, and measures to be taken in case of sudden changes in leadership.

Authorized Officials : Key positions include Board members, the CEO, deputy directors, department heads, legal advisors, and the Board secretary as defined by the company's charter. These positions are directly or indirectly involved in making official company decisions and agreements.



Succession Policy Guidelines

- The Nomination Committee and the HR Department will align the requirements, knowledge, skills, and criteria for key positions with internal and external market changes and the company's long-term strategic plans.
- The committee and HR will develop and implement principles, criteria, succession plans, and skill development plans for selecting key positions, ensuring continuous improvement.
- Gobi JSC will provide conditions for key position holders to work satisfactorily and with stability, offering opportunities for career growth.
- The Board will maintain a ready pool of candidates for key positions to ensure continuity and mitigate risks from sudden or unplanned changes in leadership, protecting shareholders' interests and maintaining operational stability.

The policy outlines objectives, principles, and measures for succession planning and unexpected events, with the Board and management ensuring its implementation.

REMUNERATION COMMITTEE

PURPOSE

The purpose of the Remuneration Committee, which operates under the Board of Directors (BoD), is to assist the BoD in determining policies related to the salaries and incentives of Authorized Officials, including BoD members, the CEO, and other management team leaders. The committee is also responsible for formulating, monitoring, and overseeing company-wide salary and incentive policies, plans, and programs.

In accordance with the company's governance code, the committee updated its operational procedures in August 2023.

COMPOSITION

<p>Chair:</p> <p>Independent member D.Khurelbaatar</p>	<p>Members:</p> <p>Independent member A.Jargalmaa Independent member Takeshi Kambe Regular member B.Amarsaikhan</p>
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Changes in Committee Composition:

Following the company governance code principle that the chair of any committee under the BoD should be an independent member and not the chair of the BoD, the BoD appointed D. Khurelbaatar, an independent member, as the chair of the Remuneration Committee via Resolution No. 17 on May 18, 2023. Due to changes in the composition of the BoD following the shareholders' meeting in 2023, B. Amarsaikhan was appointed as a member of the committee. Additionally, to increase the involvement of independent members, the BoD appointed A. Jargalmaa as a committee member via Resolution No. 39 on December 22, 2023.

2023 WORK REPORT

In 2023, the Remuneration Committee held two regular meetings, discussed 13 issues, and made eight decisions. The committee provided four types of recommendations and one directive to relevant officials and monitored their implementation. This year, the committee proposed a new salary scale for BoD members, which was approved at the regular shareholders' meeting in April 2023. The 2023 BoD salary budget was openly discussed and approved. In the mid-year meeting, the committee reviewed the principles of salary, benefits, and incentives for BoD members, deciding that BoD members should not receive any performance-based incentives and that independent members should have higher base salaries than regular members to enhance responsibility and participation. Regular members employed in the management team should not receive additional benefits for their role on the BoD.

The committee defined and monitored the implementation of company-wide salary and incentive policies, plans, and programs. They reviewed the results of organizational culture and employee satisfaction surveys, oversaw the performance of salary and incentive schemes, and, in the final meeting of the year, discussed and approved the 2024 salary and incentive budget and policy updates with the BoD.

REMUNERATION POLICY

The Remuneration Committee initially approved the salary and incentive policy in 2016 and revised it according to the updated company governance code, with the revised policy approved by the BoD in January 2024.

The policy aims to outline the principles of salary and incentives within Gobi JSC, establishing the foundation for the salary and incentive system for Authorized Officials and all employees.

Gobi JSC's Remuneration Policy

The company maintains a balanced and effective salary and incentive system aligned with internal and external market changes, long-term business strategy, growth, financial efficiency, and employee productivity.

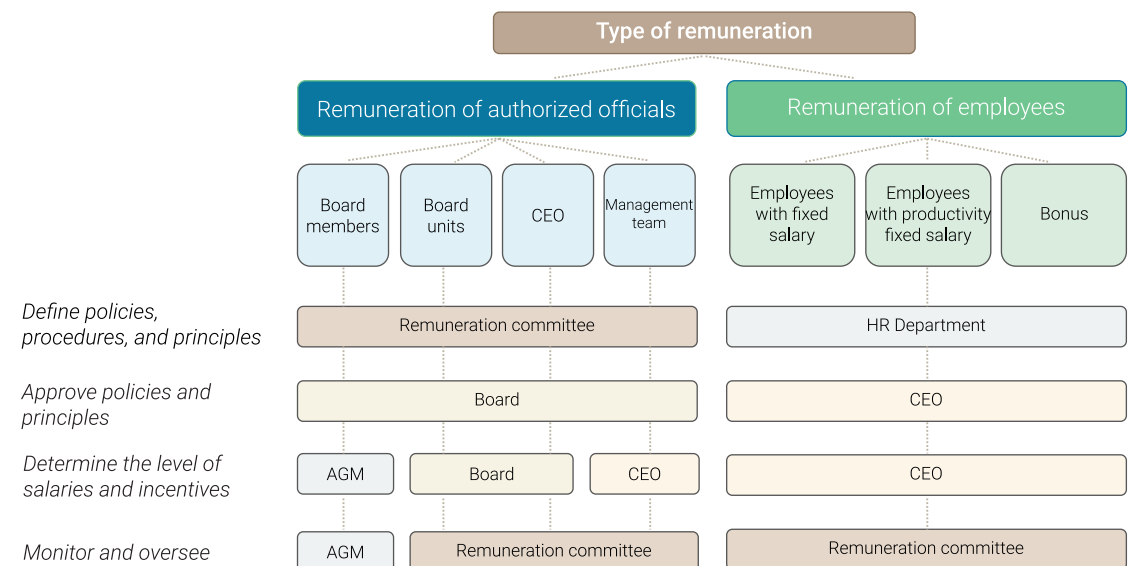
Remuneration Objectives

- Continuously improve the work environment to enable employees to develop skills, learn, grow, be fairly compensated, and work stably, satisfied, and happily, thereby increasing the average score of company culture surveys each year.
- Maintain a reasonable ratio between labor productivity and average salary growth, aligning with inflation rates and real wage increases.
- Plan the company's salary and incentive expenses annually, in line with the company's efficiency.

Remuneration Principles

- Align with business operations and strategic goals.
- Be competitive in the market.
- Ensure equality.
- Align with inflation rates and real wage increases.
- Be fair and transparent.
- Pursue innovation and continuous improvement.

Remuneration Structure



RISK AND AUDIT COMMITTEE

PURPOSE

The purpose of the Risk and Audit Committee, operating under the BoD, is to oversee and guide the effectiveness of the company's financial and economic control systems, ensure the effectiveness of internal control, compliance, and risk management systems, and facilitate interaction with independent auditors. This allows the BoD to implement risk management and control functions within the company.

The committee updated its operational procedures in August 2023, according to the revised company governance code, adding compliance management system oversight to its functions.

COMPOSITION

<p>Chair:</p> <p>Independent member A.Jargalmaa</p>	<p>Members:</p> <p>Independent member D.Gerelmaa Regular member D.Khulan</p>
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Changes in Committee Composition:

Following changes in the BoD composition after the 2023 shareholders' meeting, the BoD appointed A. Jargalmaa as the chair and D. Gerelmaa as a member of the Risk and Audit Committee via Resolution No. 17 on May 18, 2023.

2023 WORK REPORT

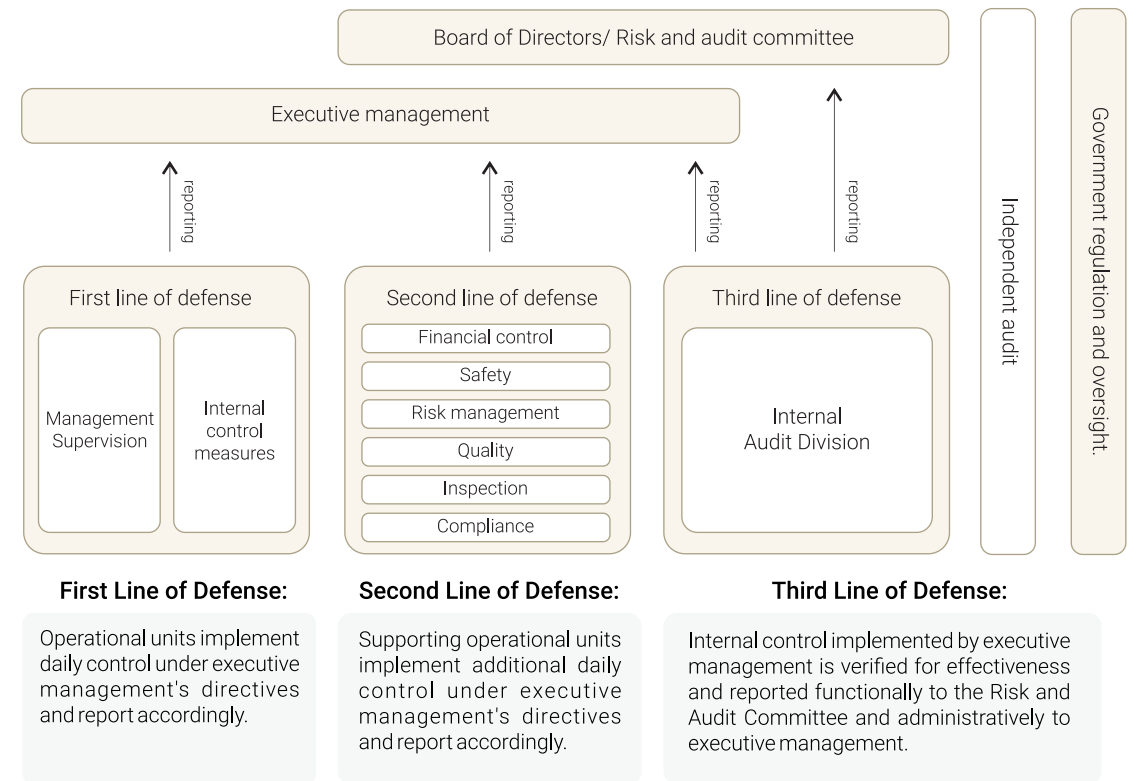
In 2023, the Risk and Audit Committee held four regular meetings and one extraordinary meeting, discussing 24 issues, making 17 decisions, and passing five resolutions. The committee provided 17 recommendations and five directives to relevant officials, ensuring their implementation and monitoring.

The committee reviewed quarterly internal audit department reports, semi-annual risk management team reports, and annual compliance management reports, overseeing the results of internal audit activities, risk management plans, and monitoring outcomes. They also reviewed and updated the "Risk Management Implementation Procedure" and "Business Continuity Procedure" projects, providing recommendations for approval by the CEO.

Additionally, the committee reviewed the 2022 financial statements, independent auditor's opinions, and recommendations, ensuring compliance with recommendations and participating in the 2023 independent auditor selection process, resulting in the reappointment of KPMG Audit.

INTERNAL CONTROL SYSTEM

Our company has organized and improved its internal control system based on the "Three Lines of Defense" model. This model is significant for various levels of management to execute their core functions of planning, executing, reporting, monitoring, and regulating on a daily basis.



INTERNAL CONTROL POLICY

The Risk and Audit Committee developed and approved the internal control policy document at the BoD meeting in October 2022. This policy aims to regulate, audit, and oversee the following aspects related to effective company operations:

- Conduct operations efficiently in compliance with laws, regulations, and rules.
- Protect and ensure the reliability of company assets.
- Prevent, detect, correct fraud, and errors.
- Ensure complete and accurate accounting records.
- Prepare timely, accurate, and realistic financial and operational information.
- Regularly monitor and manage risks.

Gobi JSC implements internal control through a hierarchy involving all employees, unit managers, the executive management team, the internal audit department, the Risk and Audit Committee, the BoD, and independent auditors.

The policy document outlines the roles and responsibilities of these stakeholders, with the BoD overseeing internal control activities through the Risk and Audit Committee.

INTERNAL AUDIT DIVISION

OBJECTIVE

The objective of the internal audit is to protect and enhance the value of the organization by evaluating the effectiveness of the company's governance processes, risk management, and internal control efficiency, and by supporting their continuous improvement. In its operations, the department adheres to the code of ethics, fundamental principles, and international standards of professional practice for internal auditing established by the Institute of Internal Auditors.

STRUCTURE AND ORGANIZATION

The internal audit activities are carried out by the Internal Audit Division under the Risk and Audit Committee, which reports to the Board of Directors. The Risk and Audit Committee is responsible for approving the internal audit charter, strategic objectives, risk-based audit plan, and resource budget, as well as appointing the head of the department and determining their salary and incentives. Additionally, the committee monitors the implementation of the audit plan, oversees the operations, and ensures the independence and objectivity of the internal audit function.

SCOPE OF ACTIVITIES

To achieve the company's goals and objectives, the internal audit ensures the quality performance of assigned responsibilities by including decision-making, policy formulation, business and support processes, compliance, and reporting activities.

2023 WORK REPORT

- Identified 98 issues through assurance activities, determining potential risks and causes, and provided recommendations for resolution.
- Evaluated the implementation of 76 recommendations across 9 packages through monitoring activities, emphasizing the importance of resolving identified issues, reducing risks, and improving outcomes.
- Provided consulting services based on management's suggestions, delivering necessary recommendations and collaborating effectively.
- Assessed the effectiveness of the company's governance, internal control, and risk management systems, offering recommendations and support to increase company value and ensure continuous improvement.
- Conducted internal quality assurance reviews of the internal audit activities, identifying areas for improvement and making necessary enhancements.

RISK MANAGEMENT

RISK MANAGEMENT POLICY

The Risk and Audit Committee initially approved the Risk Management Policy in 2018. This policy was revised in line with the company's operational processes and scope and was reapproved at the Board meeting in February 2023.

The purpose of this policy is to establish a risk management system consistent with Gobi JSC's general principles and direction, define participant roles and responsibilities, ensure successful implementation of risk management, monitor its execution, and continuously improve the principles, rights, and responsibilities of the management team and units.

OBJECTIVE

The primary goal of risk management is to support the company's profitability and increase asset returns by identifying, measuring, and controlling potential risks in line with the risk-return ratio. This process is essential for maintaining the organization's continuous profitability and successfully implementing and continuously improving a management system that aligns with the company's general principles and values.

Implementing risk management allows continuous monitoring and improvement of the business risk environment, enhances employee understanding and knowledge of risks, aids strategic decision-making at the management level, supports business objectives, and helps prevent potential losses, damages, and harm.

Principles of Risk Management

- Creating and protecting value
- Implementing appropriate governance structures
- Being an integral part of organizational processes
- Being part of decision-making
- Ensuring transparency and involvement
- Fostering a risk-aware culture
- Ensuring continuous improvement

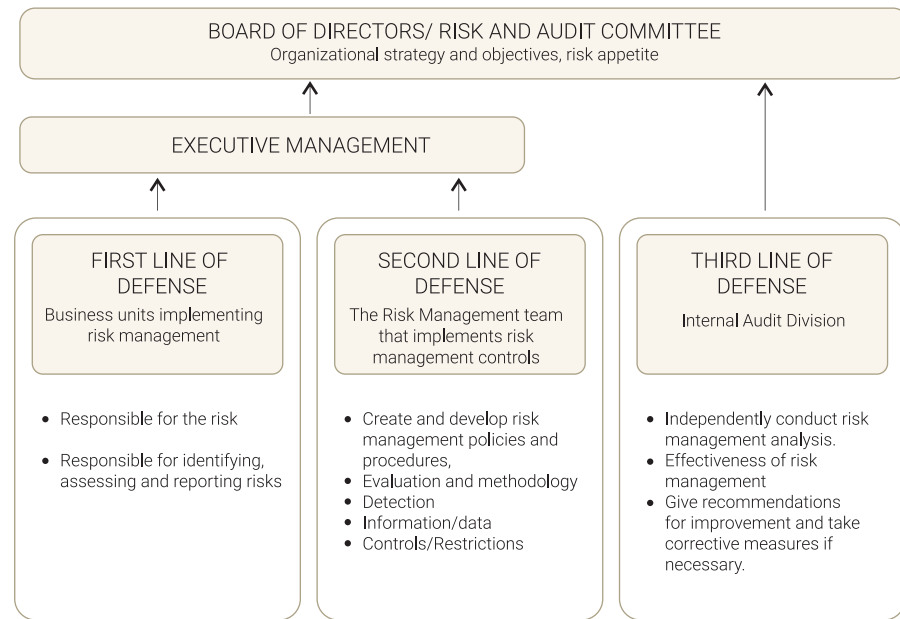
Risk Management Governance

Gobi JSC's risk management system is regulated through the "Three Lines of Defense" model, comprising two main levels: governance and implementation.

One of the core objectives of the Board of Directors is to implement risk management governance and unified oversight. Therefore, the risk management system within the company is established by the Board and its Risk and Audit Committee. The Risk Management Team, appointed by the Executive Director, is responsible for implementing the risk management policy.

The Risk Manager is a member of the Risk Management Team, while unit leaders are designated as risk owners according to the policy. The company's risk management team, composed of senior management officials, is led by the Head of the Sustainable Development Department, who oversees risk management on a quarterly basis in accordance with the risk acceptance criteria. The results are reported to the Risk and Audit Committee.

Risk Management Structure and Organization



Acceptable Risk Tolerance

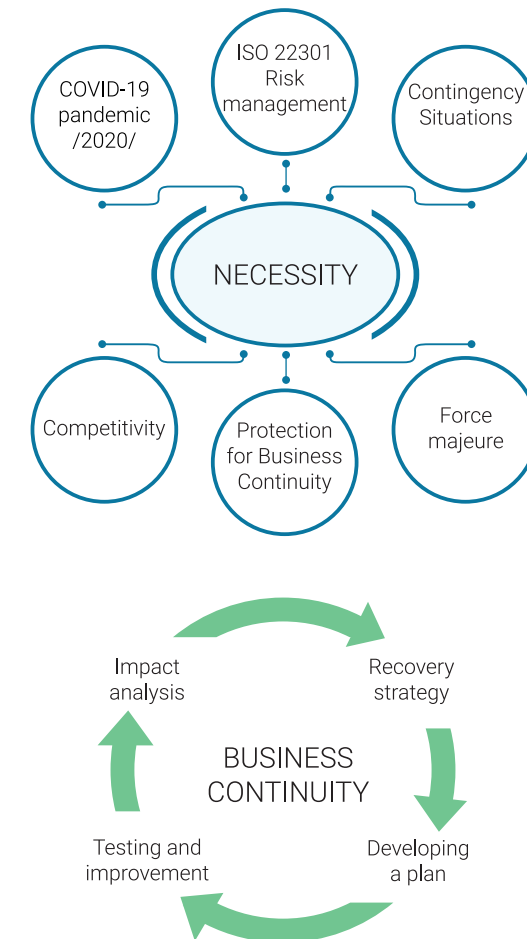
The acceptable risk tolerance defines the level of risk that is acceptable while conducting the company's operations. This level is reviewed and updated annually by the Risk and Audit Committee. The acceptable risk levels are determined based on the type of risk and are assessed using a heat matrix method (qualitative) and risk measurement indicators (quantitative).

Strategic Risk	Accept a medium level of risk for initiatives that the company undertakes, recognizing the potential for inefficiency and unproductiveness.
Compliance Risk	Strictly prohibit deliberate violations of mandatory laws, regulations, and company rules and procedures. This risk is not accepted under any circumstances
Financial Risk:	Accept a medium level of risk related to the company's financial stability
Operational Risk:	Operational Risk: Accept a low level of risk in the company's operational activities. Information Technology Risk: Accept a very low level of risk. Ethical Risk: Accept a very low level of risk. Intentional or deliberate breaches of ethical standards are not accepted under any circumstances.
Force Majeure Risk	Accept a medium level of risk for events arising from force majeure

Business Continuity

In 2022, Gobi JSC developed and approved the "Business Continuity Policy" and the "Business Continuity Procedure." The objective of these documents is to formulate measures for handling any potential impacts on the company's business operations, including force majeure events and pandemics, to quickly mitigate, recover, and ensure resource preparedness and operational continuity.

Gobi JSC aims to develop business continuity plans for key risks based on these documents. Successful implementation of these plans requires integrating risk management with tolerance capabilities, as business continuity planning and risk management are interconnected. The ISO 22301 Business Continuity Management process provides an understanding of how the business operates, identifies potential points of failure, and determines areas for improvement.



2023 WORK REPORT

Documentation

Gobi JSC has further strengthened and improved its risk management system by identifying the basis for amending its organizational documents according to international best practices such as the "ISO/IEC31000:2018" standard, the "Three Lines of Defense" model, and recommendations from international professional organizations. As a result, we have made relevant improvements and renewed our "Risk Management Policy" and "Risk Management Implementation Procedure."

Risk Management Team

In accordance with the revised risk management procedures, we have changed the frequency of risk monitoring to twice a year. The risk management activities of the organization were discussed at the Risk and Audit Committee meeting in the first quarter of 2023, and it was decided to report biannually. The composition of the Risk Management Team was updated according to the organizational structural changes and approved accordingly.

Implementation of the Risk Management System

In line with the organizational risk management calendar, all departments, factories, and units fully implement the stages of the system, including identifying, evaluating, managing, monitoring, and reporting potential risks, aiming to minimize the impact of risks.

Risk Appetite and Tolerance

This year, with the aim of maintaining and improving effective risk management across all units, the organization has established measurement indicators for each registered risk and set relevant tolerance threshold values based on advanced international methods and methodologies.

Promoting Risk Culture

In 2023, we organized general and methodological training on risk management for the "Risk Management Team" and all "Risk Owners" to foster a culture of risk management. According to the updated organizational risk management calendar, the Risk Management Team provided both on-site and remote guidance on understanding and managing each risk in each department, factory, and unit, supporting the effective execution of each stage of the risk management system.

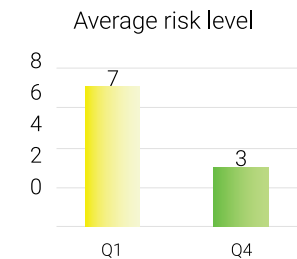
To reinforce and disseminate knowledge about risk management among all employees, we added a "Risk Management" section to the organization's intranet, providing information and recommendations. This also includes a channel for reporting any risk-related conditions observed during work or potential future risks.

RISK MANAGEMENT REPORT

As of January 2023, there were 432 risks requiring management actions (239 risks remaining from the 2022 monitoring and 193 newly registered risks based on the 2023 risk assessment), with an average score of 7, indicating a MEDIUM level. Throughout the reporting period, we aimed to reduce the average risk score to a LOW level by the end of the year.

		Impact					Very high	Numbers	%
		Very low	Low	Medium	High	Very high			
Probability	Very high	5	8	15	17	0	1	1	0.23%
	High	4	12	20	16	9	0	53	12.27%
	Medium	3	33	24	41	8	3	188	43.52%
	Low	2	41	22	17	12	6	124	28.70%
	Very low	1	66	23	27	7	4	66	15.28%
							432	100%	

2023 Risk Monitoring Measures:



New risks identified in the first half of the year's risk assessment were added, resulting in a total of 554 registered risks by the end of the fourth quarter of 2023. Of these, 246 risks were consolidated into other risks, and 69 risks were completely closed, reducing the total number of risks to 239, with an average score of 3, indicating a LOW level.

CRISIS RISK ASSESSMENT

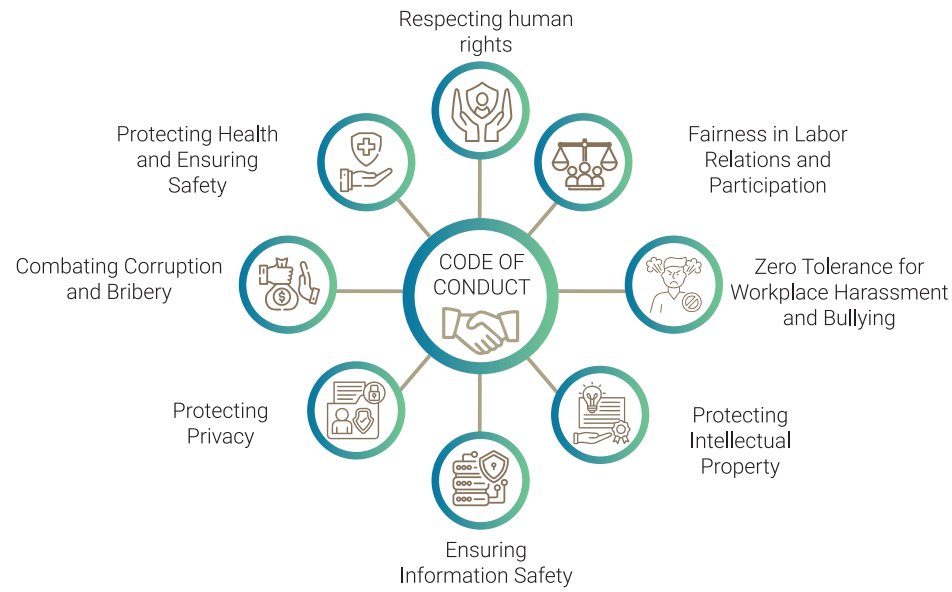
In 2023, a total of four crisis risk assessments were conducted at the organizational level, discussed by the Risk Management Team:

- Flood Risk in Summer:** During the summer, the country faced flood risks, and Gobi JSC's facilities were in high-risk areas. Relevant risk assessments were conducted, preventive measures were implemented, and the risks were managed without any damage.
- Criticism from PETA:** In July, the animal rights organization PETA published an article criticizing the combing process of goats, specifically targeting Mongolian wool and cashmere factories. The potential impact on Gobi JSC was assessed and discussed.
- Influenza and Viral Infections in China:** As winter began, the number of influenza and viral infections started increasing in China. In response, a risk assessment was conducted, information was prepared, and shared with the Risk Management Team and Risk Owners.
- Potential Energy Supply Disruption:** In December 2023, during the peak energy demand of the winter season, the risk of energy supply disruption from Russia to Mongolia was assessed. Relevant departments, factories, and units implemented energy-saving measures to ensure plan execution.

COMPLIANCE MANAGEMENT

Gobi JSC conducts its business activities adhering to principles of legality, fairness, responsibility, transparency, and ethics. The company incorporates ethical compliance into its sustainable development policy and objectives, which is managed through compliance management. Implementing a compliance management system helps strengthen the trust and confidence of employees, clients, and both domestic and international investors while preventing potential risks.

In April 2022, our company approved the Compliance Policy and Objectives, and in August 2022, we updated our Code of Ethics. The Code of Ethics of Gobi JSC includes the following principles:



HIGHLIGHTS OF 2022

- Revised and approved the "Whistleblowing System Operations Procedure" and the "Ethics Code Implementation Procedure."
- Conducted 849 person-hours of training to increase awareness and understanding of the "Ethics Code" and related procedures.
- Compliance managers and members of the Ethics Committee participated in training sessions to enhance their knowledge and skills.
- Updated the company's "Whistleblowing System."
- Organized elections for the Ethics Committee and renewed the committee with 13 members.
- Distributed the Ethics Code, Whistleblowing System introduction, and manuals to employees.
- Conducted compliance checks on a total of 43 documents.

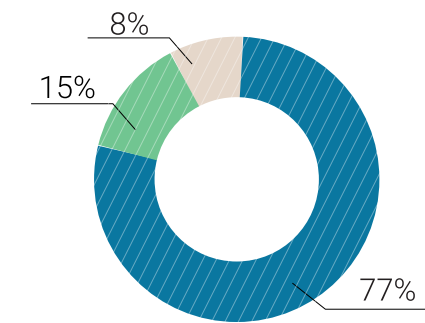
WHISTLEBLOWING MANAGEMENT SYSTEM

In 2022, Gobi JSC implemented a "Whistleblowing Management System" to detect ethical breaches early, prevent potential risks, make improvements, and strengthen employee trust in the organization. The whistleblowing system, accessible at <https://info.gobi.mn/whistleblowing>, was launched.

Depending on the scope of the information received through this system, the Board of Directors, Nomination Committee, and Ethics Committee are responsible for detecting, resolving, preventing, improving, and ensuring a fair system for any ethical violations. The Ethics Committee consists of employees elected through an open election, representing various knowledge, skills, and experiences. This approach promotes diversity and openness, bringing ethical standards closer to all employees. The company plans to continually improve and monitor the operations of the Ethics Committee and the Whistleblowing System while regularly promoting ethical standards to all employees.

Between November 2022 and December 2023, a total of 74 whistleblowing reports were received and resolved.

The breakdown of the reports by receiving channel, type, and resolution is as follows:



■ by Whistleblowing system ■ by phone ■ by written request

1. Recommendations and decisions issued by the Ethics Committee and Nomination Committee:	48	65%
2. Transferred to the relevant department or supervisor	10	14%
3. Referred to legal authorities	1	1%
4. Returned at the request of the whistleblower	4	5%
5. Returned due to insufficient evidence:	7	9%
6. Pending	4	7%
Total	74	100%

QUALITY MANAGEMENT

Gobi JSC conducts quality inspections on 230 indicators across all stages from receiving raw materials from herders to the final product. The company strictly adheres to technological standards and produces products that meet both national and international standards, delivering them to consumers through domestic, international, and online channels.

To meet consumer needs, Gobi JSC implements a quality management system at every stage of production, adhering to 85 national MNS standards, 18 company policies, 6 regulations, 152 procedures, technological protocols, 47 work instructions, and 14 manuals, ensuring 100% quality control. The company continuously improves its quality management system.

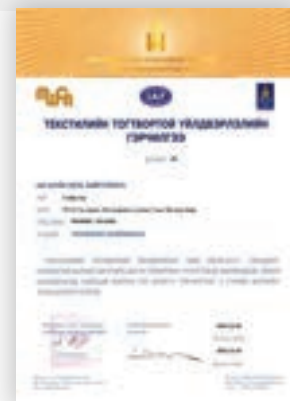


In May 2023, Gobi JSC underwent an ISO 9001:2015 certification audit and received the certification, confirming that the company delivers products and services that meet standard requirements to consumers.



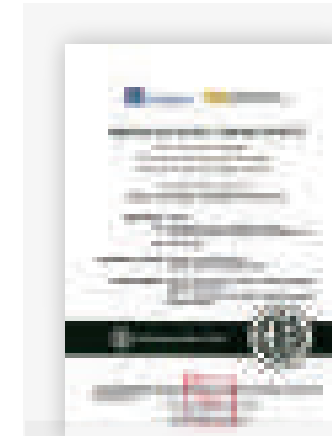
Gobi JSC's primary factory successfully participated in the "Sustainable Fibre Alliance" (SFA) certification for "Good Cashmere Processing Practices" for the third time in 2023.

This certification demonstrates that the company follows sustainable methods in human resource management, occupational safety, and environmental friendliness during the sorting, washing, and combing of raw materials.



Gobi JSC successfully participated in the MNS 6926:2021 "Sustainable Textile Production" certification, which establishes the basic principles and requirements for sustainable textile production, including evaluation and certification.

This confirms that Gobi JSC operates with environmental sustainability, proper governance, human-friendliness, social responsibility, and an appropriate management system throughout its production stages.



Gobi JSC first received the "Mongolian noble fibre" certification for combed cashmere and knitwear products in 2019. In 2023, this certification was extended for an additional three years and expanded to include woven products.



Gobi JSC's spun yarn met the requirements of the "STANDARD 100 by OEKO-TEX" certification, awarded by the Zurich-based OEKO-TEX 100 organization. This internationally recognized quality certification was renewed for the fourth time in 2023.

This certification confirms that Gobi JSC's spun yarn is free from harmful chemicals and safe for human health.



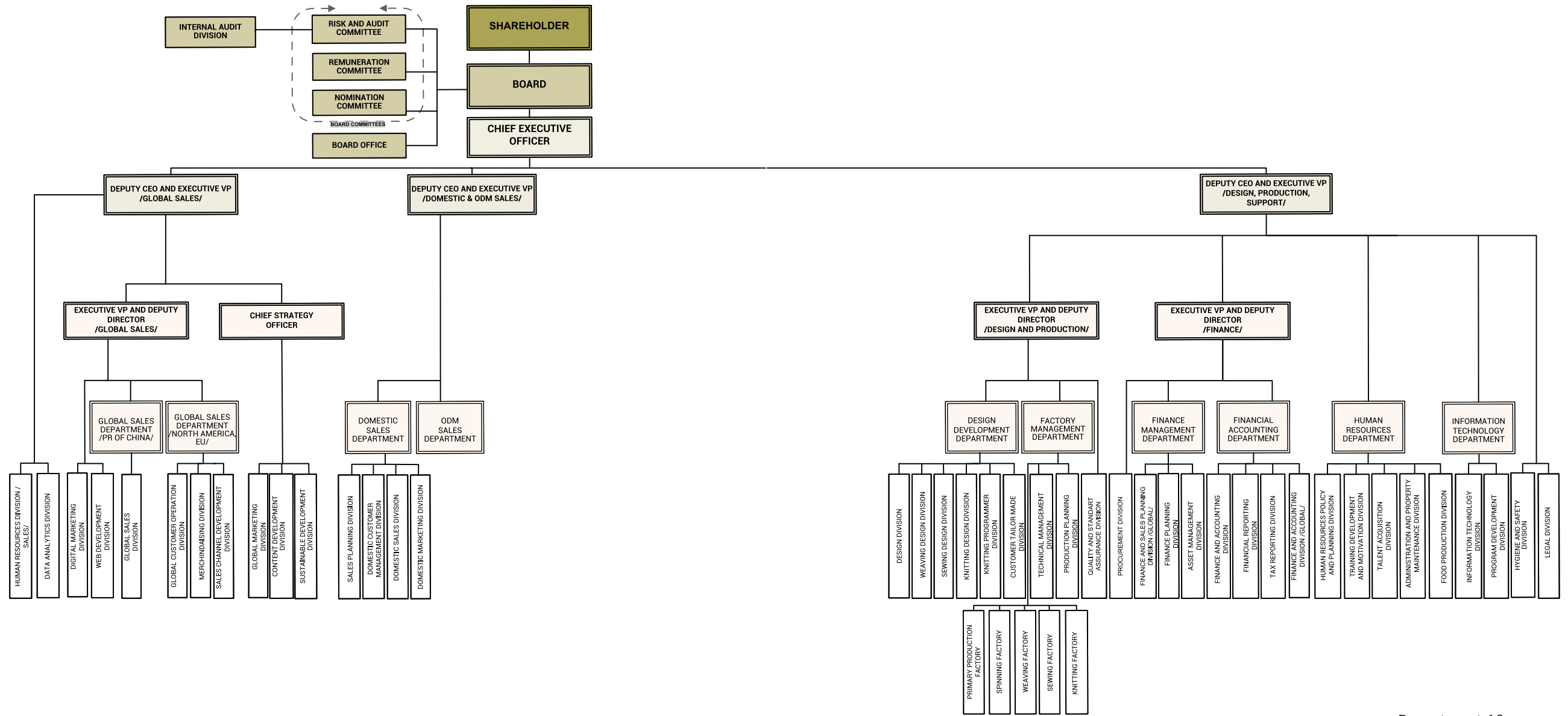
The company's knitted and sewn woven products in colors N-1, 02, 03, 57 were previously certified as meeting the standards for organic agricultural products. In 2023, the certification was extended for another two years and now includes an additional 1000 colors. This certification is awarded by the Department of Agriculture.



Gobi JSC's raw material warehouse met the criteria set by the Agricultural Exchange and successfully extended its ACCREDITATION CERTIFICATE from 07/21/2023 to 07/21/2026.



ORGANIZATION CHART OF GOBI JSC



- Department-10
- Division-42
- Factory-5

MAJOR CHANGES IN THE COMPANY'S STRUCTURE AND ORGANIZATION

Senior Management:

- The position of First Deputy Director in charge of Sales has been divided into two separate roles: one for Foreign Sales and the other for Domestic and Export Sales.
- The departments of Foreign Marketing, Content Development, and Sustainable Development have been transferred under the direct management of the Director of Strategy and Growth.
- The Procurement Department has been transferred under the direct management of the Deputy Director in charge of Finance.

Domestic Sales Department:

- Established a new Domestic Customer Operations Department.

Export Sales Department:

- Upgraded the Export Sales Department to an Export Sales Division.

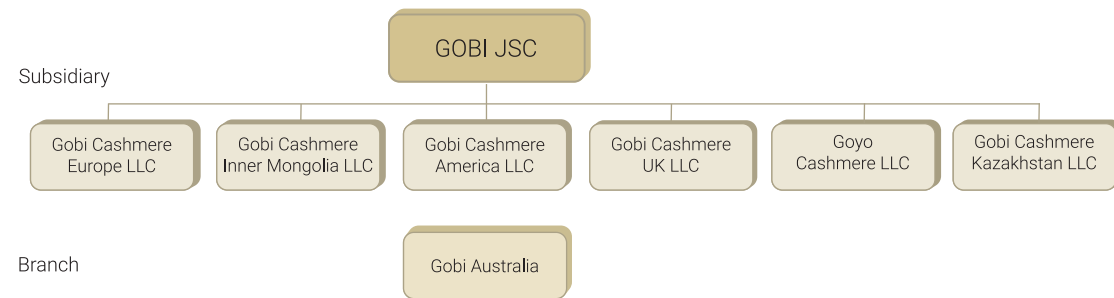
Foreign Sales Department:

- The HR Department for Foreign Sales has been restructured into an overall Sales HR Department.

Human Resources Department:

- Established a new Food Production Department.
- Transferred the Administration and Operations Department under the Human Resources Department.

GOBI CORPORATION STRUCTURE



CHANGES IN THE STRUCTURE OF GOBI GROUP

As of the Board of Directors' resolution on August 11, 2023, a subsidiary was established in the Republic of Kazakhstan.

SUBSIDIARY AND BRANCH INFORMATION

Nº	Subsidiary Name	Location	Activity
1	Gobi Cashmere Europe LLC	Schoenefeld, Germany	Trade Services
2	Gobi Cashmere Inner Mongolia LLC	Ereen, China	Trade Services
3	Gobi Cashmere America LLC	Los Angeles, USA	Trade Services
4	Gobi Cashmere UK LLC	London, UK	Trade Services
5	Gobi Cashmere Kazakhstan LLC	Almaty, Kazakhstan	Trade Services
6	Goyo Cashmere LLC	Ulaanbaatar, Mongolia	Production, Trade Services

Nº	Branch name	Location	Activity
1	Gobi Australia	Sydney, Australia	Trade Services



MANEAGEMENT TEAM



**BAATARSAIKHAN
Tsagaach**
CEO

*Years of service
at Gobi: 17 years*

*Shareholding in Gobi
Corp: 50,000 shares (0.006%)*

Related parties: 51.73%



**ORGILBOLD
Tsogtgerel**
Deputy CEO &
Executive VP:
Global Sales

*Years of service
at Gobi: 4 years*

*Shareholding in Gobi
Corp: None*

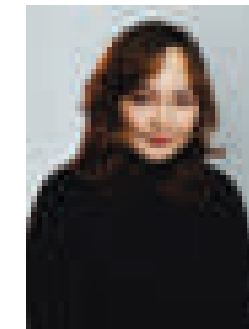
Related parties: 51.73%



**ANUDARI
Gantumur**
ODM Sales Director

*Years of service
at Gobi: 7 years*

*Shareholding in Gobi
Corp: : 800 shares
(0.0001%)*



**TSENGEL
Oyunchimeg**
Design Development
Director

*Years of service
at Gobi: 8 years*

*Shareholding in Gobi
Corp: : 800 shares
(0.0001%)*



**ARIUNAA
Batchuluun**
Deputy CEO &
Executive VP:
/Domestic, ODM Sales /

*Years of service
at Gobi: 11 years*

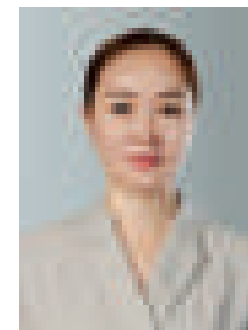
*Shareholding in Gobi
Corp: 1,000 shares
(0.0001%)*



**ENKHMANDAKH
Batsukh**
Deputy CEO &
Executive VP:
/Design, production,
Support/

*Years of service
at Gobi: 2 years*

*Shareholding in Gobi
Corp: None*



**SODGEREL
Duikherjav**
Financial Accounting
Director

*Years of service
at Gobi: 13 years*

*Shareholding in Gobi
Corp: : 800 shares
(0.0001%)*



**UDVAL
Ariuntulga**
Finance Management
Director

*Years of service
at Gobi: 8 months*

*Shareholding in Gobi
Corp: : None*



**AMARSAIKHAN
Baatarsaikhan**
Chief Strategy &
Growth Officer

*Years of service
at Gobi: 4 years*

*Shareholding in Gobi
Corp: 1,000 shares
(0.0001%)*

Related parties: 51.73%



**MISHEEL
Otgontugs**
Executive VP and
Deputy director:
Global sales

*Years of service
at Gobi: 7 years*

*Shareholding in Gobi
Corp: 1,000 shares
(0.0001%)*



**ERDENE
Bayaraa**
Chief Technology Officer

*Years of service
at Gobi: 4 months*

*Shareholding in Gobi
Corp: None*



**TSASCHIKHER
Tsogtbayar**
Chief Legal Officer

*Years of service
at Gobi: 10 years*

*Shareholding in Gobi
Corp: 1,000 shares
(0.0001%)*



**BOLORMAA
Batsuuri**
Executive VP and
Deputy director:
Design and production

*Years of service at
Gobi: 17 years*

*Shareholding in Gobi
Corp: 1,000 shares
(0.0001%)*



**SOYOLMAA
Demberel**
Chief HR Officer

*Years of service
at Gobi: 2years*

*Shareholding in Gobi
Corp: None*



**SELENGE
Munkhbat**
Board Secretary

*Years of service
at Gobi: 7 years*

*Shareholding in Gobi Corp:
500 shares (0.0000%)*



**URANCHIMEG
Tseveldorj**
Head of Internal
Audit Division

*Years of service
at Gobi: 12 years*

*Shareholding in Gobi
Corp: None*

REMUNERATION OF MANAGEMENT TEAM

CEO's Salary and Incentives

The CEO oversees the executive management of the company. Their salary and incentives are tied to the company's financial and operational performance, job performance, and skill assessments. The Board's Salary and Compensation Committee determines the amount and principles of these compensations.

The Nomination Committee, which reports to the Board, drafts the Management Agreement outlining the CEO's duties and responsibilities, which the Board approves. In August 2023, the Board renewed the Management Agreement with the CEO.

Management Team Salaries and Incentives

The CEO determines the salaries and incentives for other management team members within the framework of the company's Salary and Incentives Policy. However, the Board, based on recommendations from the relevant committees, sets the salaries for the Board Secretary and the Head of Internal Audit. If any management team member also serves as a Board member, they receive only the Board member's salary and do not get additional compensations or incentives.

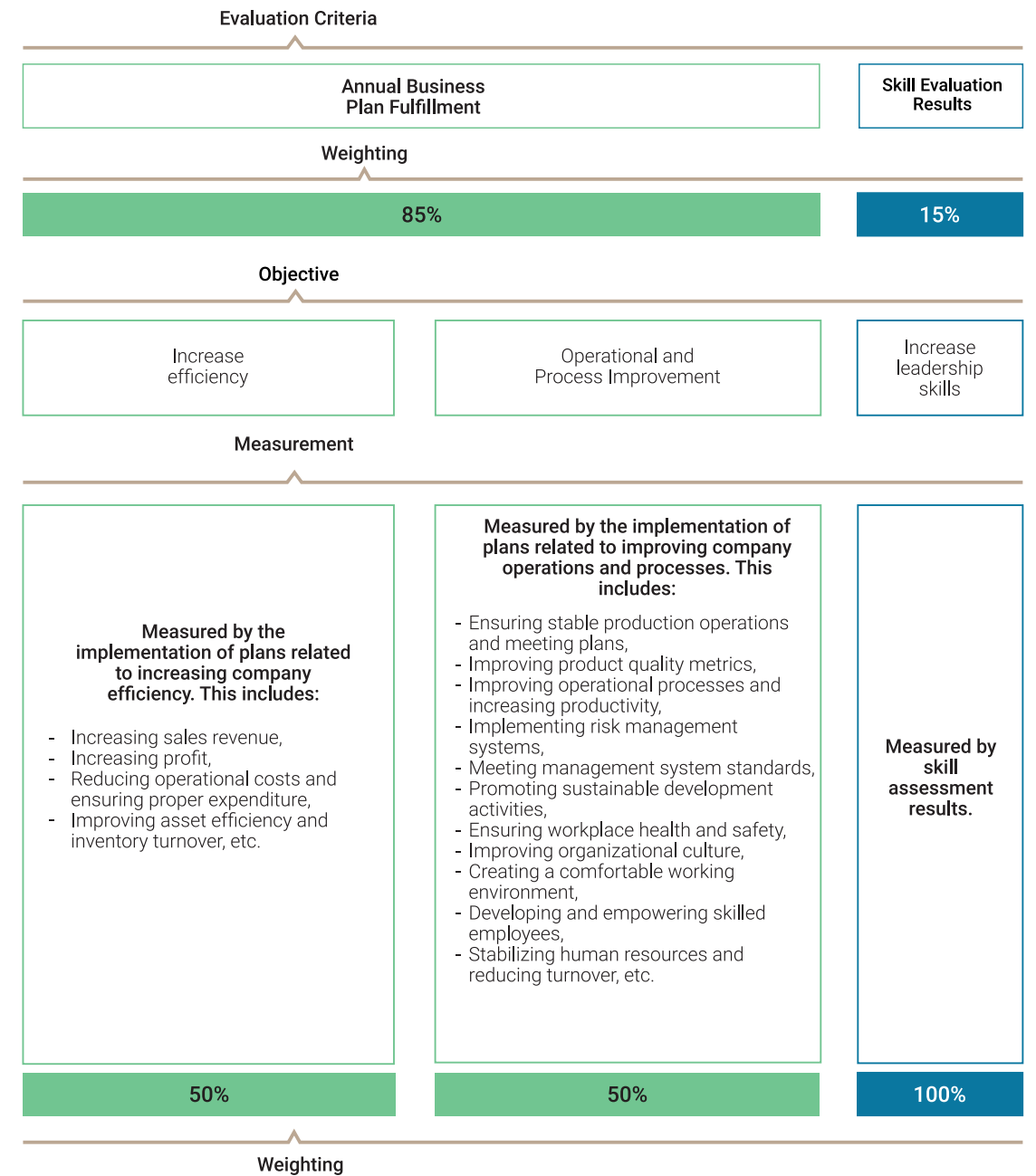
Salary Structure:

Indicator	Weighting
Base salary	Depends on the position functions.
Performance-based Bonus (KPI)	
<ul style="list-style-type: none"> Sales and profit metrics Employee's planned performance Staff turnover in the department 	

Incentive Principles

According to Gobi Corporation's Salary and Incentives Policy and the Performance Incentive Payment Procedure, bonuses are awarded based on financial performance and achieving specific benchmarks in the annual business plan, such as sales execution and net profit performance.

CEO Performance Evaluation Indicators



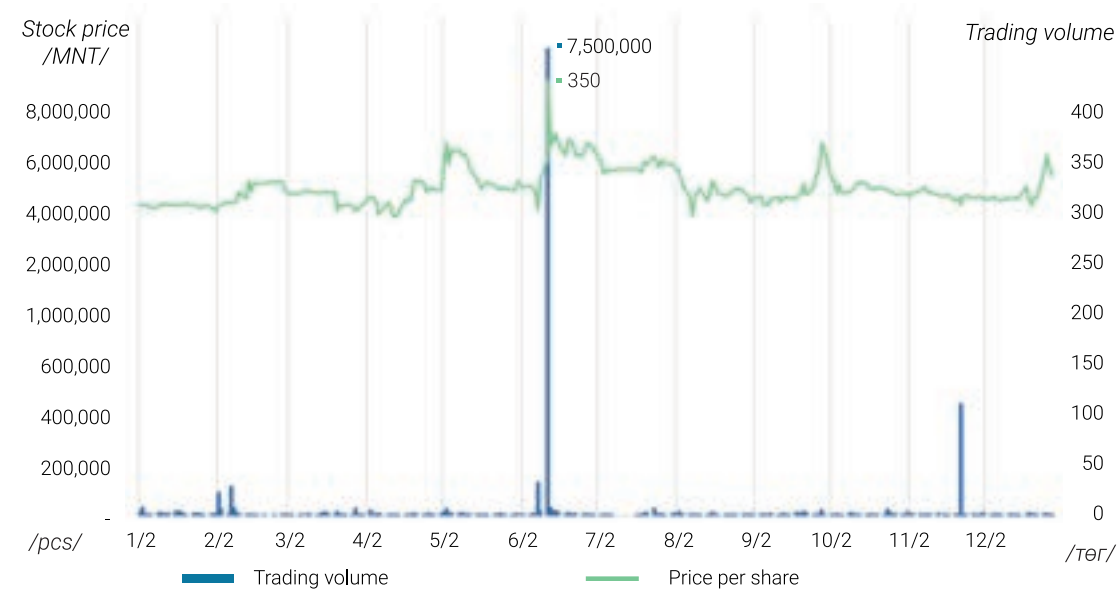
For the management team, performance evaluation indicators and their respective weighting and measurements vary according to their specific job functions.

SALARIES AND INCENTIVES FOR 2023

	2022 он	2023 он	/thousand MNT/ Өөрчлөлт %
Management Team Compensation			
Salary	1,282,495	1,755,628	36.9%
Bonus	98,056	56,000	-42.9%
Social Insurance	186,153	244,329	31.3%
Total	1,566,703	2,055,957	31.2%

COMPANY'S STOCK MARKET PERFORMANCE

The market value of Gobi JSC, as of December 31, 2023, amounted to 213,430,978,875 MNT. The annual trading data is presented below graphically:



52-WEEK TRADING RANGE

INDICATOR	2022	2023	Growth/ decline %
TOTAL NUMBER OF ISSUED SHARES	780,112,500	780,112,500	-
STOCK PRICE /MNT/			
Closing price	248.32	273.59	10.2%
Highest price	311.50	350.00	12.4%
Lowest price	242.73	240.69	-0.8%
Average price	272.19	263.90	-3.0%
TRADING VOLUME			
Highest /per day/	1,234,986	7,500,000	507.3%
Lowest / per day /	392	179	-54.3%
Average / per day /	30,702	62,704	104.2%
Total	7,552,604	15,676,081	107.6%
TRADING PRICE /MNT/			
Highest /per day/	336,411,123	2,625,000,000	680.3%
Lowest / per day /	107,018	52,805	-50.7%
Average / per day /	8,519,435	18,985,172	122.8%
Total	2,095,780,903	4,746,292,927	126.5%
MARKET CAPITALIZATION /MNT/	193,717,536,000	213,430,978,875	10.2%

DIVIDEND

Our company is committed to maintaining its prominent position in the domestic market by enhancing its market share and expanding into foreign and online trade markets. We will continuously update our techniques and technologies to improve product quality and expand our operations. We remain dedicated to increasing the return on investment for our shareholders and distributing dividends in accordance with our regular distribution policy.

Chapter 2 of the "Dividend Regulations," approved by the Board of Directors in 2018, outlines our dividend policy as follows.

Two. DIVIDEND POLICY

2.1 The company's dividend policy is aligned with its operations and strategic policies.

2.2 The company will work with the policy of properly managing the capital invested by shareholders and keeping the number of dividends at an appropriate level.

2.3 The Company will distribute dividends if the conditions for dividend distribution specified in Article 47 of the Company Law and Article 8.12 of the Company's Articles of Association are met.

2.4 The amount of dividend to be distributed per share shall be determined by the board of directors based on the amount of net profit after tax for the current financial year, the Company's short and medium-term strategic plans, and investment needs.

2.5 A policy of not reducing the amount of dividends will be adopted if the net profit earned in the given financial year does not decrease from the previous year.

2.6 Dividends will be paid in cash.

2.7 A fund for social and cultural events and industrial development can be established from the profits remaining after the distribution of dividends. The board of directors will decide on the foundation of the fund.

DIVIDEND INFORMATION

Year	Total number of issued shares	Dividend per share (MNT)	Total dividend (MNT)	DIVIDEND DISTRIBUTION
1996	7,801,125	61.00	475,868,625	
1997	7,801,125	153.80	1,199,813,025	
1998	7,801,125	150.00	1,170,168,750	
1999	7,801,125	166.00	1,294,986,750	
2000	7,801,125	100.00	780,112,500	
2001	7,801,125	20.16	157,270,680	
2005	7,801,125	60.00	468,067,500	
2006	7,801,125	60.00	468,067,500	
2010	7,801,125	100.00	780,112,500	
2011	7,801,125	100.00	780,112,500	
2012	7,801,125	125.00	975,140,625	
2013	7,801,125	130.00	1,014,146,250	
2014	7,801,125	140.00	1,092,157,500	
2015	7,801,125	140.00	1,092,157,500	
2016	7,801,125	200.00	1,560,225,000	
2017	7,801,125	220.00	1,716,247,500	
2018	780,112,500	6.80	5,304,765,000	
2019	780,112,500	-	-	
2020	780,112,500	-	-	
2021	780,112,500	-	-	No dividends were distributed.
2022	780,112,500	-	-	
2023	780,112,500	-	-	

Gobi JSC was privatized in 2007, we are distributing previously announced dividends at our company's office.

100% of the dividends of these years were distributed by transferring them to the securities deposit accounts of the shareholders through the Mongolian Central Securities Depository.

BOARD RESOLUTION ON NON-DISTRIBUTION OF DIVIDENDS FOR THE 2023 FINANCIAL RESULTS

In a meeting held on January 26, 2023, the Board of Directors of Gobi JSC made a resolution not to distribute dividends for the financial year ending December 31, 2023. The financial results of 2023 did not meet the criteria specified in the article 2.3 of the company's dividend policy, and the necessary financial ratios were not attained. Consequently, it was decided to withhold the distribution of dividends.





GOBI JSC AND ITS SUBSIDIARIES

(Business entity incorporated in Mongolia)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITOR

The Risk and Audit Committee of Gobi JSC establishes the independence, qualifications, work experience, and other criteria for independent auditors. It evaluates whether these criteria are met, and makes recommendations to the Board of Directors on the rights, duties, and responsibilities of independent auditors, the amount of fees to be paid to auditors, and other contractual terms, which are then approved by the Board. Additionally, it oversees the activities of the independent auditor and monitors and guides the implementation of recommendations provided to management.

KPMG Audit LLC conducted an independent audit of the financial statements of Gobi JSC for the year ending December 31, 2023. The contract amount was 81,000 USD, equivalent to 280,328,040 MNT. KPMG Audit LLC is one of the four largest international auditing firms and was registered with the Financial Regulatory Commission as an auditing company providing services in the securities market in 2013.

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Consolidated Statement of Profit or Loss and Other Comprehensive Income	2
Consolidated Statement of Changes in Equity	3
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31 December 2023

GENERAL INFORMATION

Chairwoman	D. Gerelmaa
Members of Board of Directors	Ts. Baatarsaikhan D. Khulan B. Amarsaikhan Ts. Orgilbold Hideo Sawada
Independent members of Board Directors	Kambe Takeshi D. Khurelbaatar A. Jargalmaa
Secretary	M. Selenge
Principal Bankers	Khan Bank of Mongolia Golomt Bank of Mongolia Xac Bank of Mongolia Trade and Development Bank of Mongolia Arig Bank The Bank of America Corporation Deutsche Bank AG China Construction Bank Corporation
Registered address	Industrial street, 3rd khoroo, Khan-Uul District, Ulaanbaatar-17062, Mongolia
Independent Auditors	KPMG AUDIT LLC #602, Blue Sky Tower, Peace Avenue 17, 1st khoroo, Sukhbaatar District, Ulaanbaatar 14240, Mongolia

Management's Responsibility Statement

Gobi JSC's management is responsible for the preparation of the consolidated financial statements.

The consolidated financial statements of Gobi JSC and its subsidiaries (the "Group") have been prepared to comply with IFRS Accounting Standards. The Group's management 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 2023 and the financial performance and cash flows for the year then ended on that date.

The Group's management 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 4 thereto.

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

The consolidated financial statements of the Group for the year ended 31 December 2023 were authorised for issuance by the Group's management.



B. Amarsaikhan
Chief Executive Officer
"ГОБИ" ХЯБГААЛТ КОМПАНИ



D. Sodgerel
Director of Finance

Ulaanbaatar,
Mongolia

Date: 21 March 2024



KPMG Audit LLC
 #602, Blue Sky Tower, Peace Avenue,
 1st Khoro, Sukhbaatar District,
 Ulaanbaatar 14240, Mongolia

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 Fax :+976 7011 8102
 www.kpmg.com/mn

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Gobi JSC (the "Parent Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, 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 material 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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

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 International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ("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.

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Key Audit Matters, Continued

Revenue recognition

Refer to Note 25.1 to the consolidated financial statements and the accounting policies in Note 2.12.

Area of focus	How our audit addressed the area of focus
<p>Under International Standards on Auditing there is a presumed fraud risk relating to revenue recognition. We have determined this to apply to the occurrence of the revenue because of the pressure management may feel to achieve the planned results.</p> <p>Due to these factors, we have considered revenue recognition to be a key audit matter relevant to our audit of the consolidated financial statements.</p>	<p>Our audit procedures over revenue included, among others:</p> <ul style="list-style-type: none"> - We tested selected controls management has in place over the sales and revenue recognition process, focusing on controls over the existence, accuracy and timing of revenue recognition. - We assessed 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 recalculated the Group's revenue using quantities and prices. - We performed audit procedures over sales between the Group and its customers such as customer confirmations. - We performed subsequent credit note review and customer verification of existence. - We searched and tested the unusual journal entries to the sales account recorded outside the regular sales process.



Other information

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 consolidated 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 Accounting Standards, 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.



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

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 Pyung-Sik Kong, and the General Director of the audit firm is Soyolmaa Gungaanyambuu.



KPMG Audit LLC
Ulaanbaatar, Mongolia
21 March 2024

Signed by:

Soyolmaa Gungaanyambuu
General Director

Approved by:

Pyung-Sik Kong
Partner

This report is effective as at 21 March 2024, 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.

GOBI JSC AND ITS SUBSIDIARIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 (IN THOUSANDS OF MONGOLIAN TUGRUGS)

	Notes	31 Dec 2023	31 Dec 2022
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents	5	9,491,111	9,034,919
Prepayments and advances	7	3,173,680	2,318,495
Trade and other receivables	6	8,030,908	3,318,986
Inventories	8	142,521,277	128,791,463
Right to returned goods assets	9	-	17,227
		163,216,976	143,481,090
<i>Non-current assets</i>			
Property, plant and equipment	10	129,249,293	137,432,575
Right-of-use assets	11	2,109,746	731,724
Deferred tax assets	24.3	9,276,559	14,879,483
Other non-current assets	13	7,930,958	1,587,295
		148,566,556	154,631,077
Total Assets		311,783,532	298,112,167
LIABILITIES AND EQUITY			
<i>Current liabilities</i>			
Trade and other payables	14	38,880,126	20,969,192
Contract liabilities	14.1	1,672,424	1,983,898
Refund liabilities	15	-	26,503
Lease liabilities	16	964,376	777,988
Corporate income tax payable	24.2	1,801,506	3,683,126
Borrowings	17	232,559,514	129,853,617
		275,877,946	157,294,324
<i>Non-current liabilities</i>			
Lease liabilities	16	1,321,948	112,069
Borrowings	17	9,830,059	95,686,234
Long-term other payables	18	17,036,260	30,984,941
Deferred tax liability	24.3	7,883,775	8,206,834
		36,072,042	134,990,078
Total Liabilities		311,949,988	292,284,402
Equity			
Share capital	19	780,113	780,113
Revaluation reserve	22	44,568,540	44,568,540
Foreign currency translation reserve	23	(10,662,273)	(11,436,010)
Accumulated losses		(34,852,836)	(28,084,878)
Total Equity		(166,456)	5,827,765
Total Liabilities and Equity		311,783,532	298,112,167

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

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023
(IN THOUSAND OF MONGOLIAN TUGRUGS)

	Notes	2023	2022
Revenue	25.1	255,650,516	193,427,609
Cost of sales	25.2	(131,011,345)	(97,766,831)
Gross profit		124,639,171	95,660,778
Other income	27.1	5,002,286	1,162,425
Selling and distribution expenses	25.4	(73,593,361)	(61,767,484)
Administrative expenses	25.5	(19,733,240)	(14,138,399)
Reversal of impairment loss on financial assets	31.1	9,266	49,464
Other expenses	27.2	(6,980)	(13,355)
Operating profit		36,317,142	20,953,429
Finance income	26	229,734	29,261
Finance costs	28	(36,523,753)	(30,979,282)
Profit (loss) before income tax		23,123	(9,996,592)
Income tax (expense) benefit	24	(6,791,081)	2,998,982
Loss for the year		(6,767,958)	(6,997,610)
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Tax impact on revaluation of property, plant and equipment	22	-	(4,301,861)
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translating the net assets of foreign subsidiaries	23	773,737	(11,997,888)
Other comprehensive income (loss) for the year		773,737	(16,299,749)
Total comprehensive loss for the year		(5,994,221)	(23,297,359)
Losses per share-Basic (in MNT)	21	(9)	(9)

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

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GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023
(IN THOUSAND OF MONGOLIAN TUGRUGS)

	Notes	Share capital	Revaluation surplus	Foreign currency translation reserve	Accumulated losses	Total equity
Balance as at 1 January 2022		780,113	48,870,401	561,878	(21,087,268)	29,125,124
<i>Total comprehensive income:</i>						
Net loss for the year		-	-	-	(6,997,610)	(6,997,610)
Other comprehensive loss	22, 23	-	(4,301,861)	(11,997,888)	-	(16,299,749)
Balance as at 31 December 2022		780,113	44,568,540	(11,436,010)	(28,084,878)	5,827,765
Balance as at 1 January 2023		780,113	44,568,540	(11,436,010)	(28,084,878)	5,827,765
<i>Total comprehensive income:</i>						
Net loss for the year		-	-	-	(6,767,958)	(6,767,958)
Other comprehensive income	23	-	-	773,737	-	773,737
Balance as at 31 December 2023		780,113	44,568,540	(10,662,273)	(34,852,836)	(166,456)

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

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GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023
(IN THOUSAND OF MONGOLIAN TUGRUGS)

	Notes	2023	2022
Cash flows from operating activities			
Loss for the year		(6,767,958)	(6,997,610)
Adjustments for:			
Depreciation and amortization	25.3	12,643,029	11,872,940
Income tax expense (benefit)	24	6,791,081	(2,998,982)
Interest expense	28	30,257,198	25,600,326
Interest income	26	(229,734)	(29,261)
Unwinding of discount on subsidized loans	28	4,418,776	-
Unrealised foreign exchange rate loss		1,176,462	6,498,317
Reversal of impairment on financial assets	31.1	(9,266)	(49,464)
Impairment allowance / (reversal) on inventories, net	8	(166,906)	738,563
Loss from disposal of property, plant and equipment	27	6,980	13,355
		48,119,662	34,648,184
Changes in:			
Change in accounts and other receivables		(3,548,120)	12,664,331
Change in prepayments and advances		(6,148,480)	228,243
Change in inventories		(13,562,908)	8,500,346
Change in right to returned goods		17,227	(17,227)
Change in trade and other payables		(11,962,418)	14,542,458
Change in refund liabilities		(26,503)	26,503
Change in contract liabilities		(311,474)	613,617
		12,576,986	71,206,455
Income taxes paid	24.2	(3,392,836)	(78,714)
Interest paid	17.2	(27,329,645)	(25,219,577)
Net cash flows (used in)/ from operating activities		(18,145,495)	45,908,164
Cash flows from investing activities			
Interest received	26	229,734	29,261
Proceeds from sale of property, plant and equipment		1,359,228	7,664
Acquisition of property, plant and equipment	10	(4,642,753)	(2,934,998)
Acquisition of intangible assets	13.1	(1,249,934)	(226,018)
Net cash flows used in investing activities		(4,303,725)	(3,124,091)
Cash flows from financing activities			
Proceeds from borrowings including related party loans	17.2	1,153,263,480	381,238,895
Proceeds from issuance of bond	17.2	-	7,906,980
Repayment of bond		-	(17,765,164)
Repayment of borrowings including related party loans	17.2	(1,130,151,838)	(396,589,513)
Advances provided to related parties	29.3	(18,950,000)	-
Payment of advances provided to related parties	29.3	18,950,000	-
Payments of lease liabilities	17.2	(965,391)	(931,813)
Payment of dividends	20	(280)	(247)
Net cash flows from (used in) financing activities		22,145,971	(26,140,862)
Net (decrease) / increase in cash and cash equivalents		(303,249)	16,643,211
Exchange difference on translating foreign operations		773,737	(11,997,888)
Effects of exchange rate changes on cash		(14,296)	117
Cash and cash equivalents, at the beginning of the year	5	9,034,919	4,389,479
Cash and cash equivalents, at the end of the year	5	9,491,111	9,034,919

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

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GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

1. Corporate information

Gobi JSC (hereinafter referred to as the “Company”) was established in 1981 under the laws of Mongolia. 51.29% of the Company is owned by Tavan Bogd Holdings LLC, registered in Mongolia, 34% by Hide Inter LLC, registered in Japan, and the remaining 14.71% is owned by other small shareholders. As at 31 December 2023, Gobi JSC had a total of 23,989 shareholders. In January 2024, the name of the ultimate controlling party was changed from Tavan Bogd Trade LLC to Tavan Bogd Holdings LLC.

The place of business of the Company is GOBI JSC Building, which is located at Industrial Street, 3rd Khoroo, Khan-Uul District, 17062, Ulaanbaatar, Mongolia. The Company and its subsidiaries (together referred to as the “Group”) engage operations in Mongolia, People’s Republic of China, United States of America, Federal Republic of Germany, and the United Kingdom.

The Company was registered to the General Authority of State Registration and issued with the State Registration Certificate with the entity’s registration No: 2076357.

The Chief Executive Officer was changed on 28 February 2024 and new appointment is effective from 1 March 2024.

The Group is primarily engaged in manufacturing and selling of finished and semi-finished goods such as knitwear, sewn and woven products, and provision of related services such as dry cleaning. The Group’s operating income is disclosed in detail in Note 25.1. The subsidiaries of the Company are disclosed in Note 12.

The executive management of the Group authorised the issuance of the consolidated financial statements on 21 March 2024.

2. Summary of material accounting policies

Material accounting policy information

The Group adopted Disclosure of Accounting Policies (*Amendments to IAS 1 and IFRS Practice Statement 2*) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information and disclosed in the consolidated financial statements.

The amendments require the disclosure of “material”, rather than “significant”, accounting policies. The amendments also provide guidance on the application of materiality to disclose of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the consolidated financial statements.

2.1 Statement of compliance

The consolidated financial statements have been prepared and presented in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB). Certain corresponding figures have been reclassified to conform to the current year’s presentation.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties. Certain properties are measured at revalued amount or fair value, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These consolidated financial statements are presented in thousands and in Mongolian Tugrugs (“MNT”), which is the Group’s functional currency, unless otherwise indicated.

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**GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(IN THOUSANDS OF MONGOLIAN TUGRUGS)**

2. Summary of material accounting policies (continued)

2.2 Basis of preparation (continued)

2.2.1 Going concern

The total sales revenue of the Group in 2023 was MNT 255.7 billion, and it showed 32% growth from the previous year. This was mainly resulted from the increase in domestic market sales of MNT 147.0 billion (57%), due to the recovery of tourism. Original Design Manufacturer (ODM) sales increased by 30% amounting MNT 59.5 billion.

Regarding the global market, sales decreased by 10% due to a warmer climate and a decline in customer preference for online shopping. In overall, the Group's total net sales has shown an increase as well as improvement regarding the profitability by 3% compared to 2022.

In 2024, overall sales revenue for Gobi is expected to be increased slightly to current year which is considered achievable in terms of the growth trend. The domestic market is expected to be increased, whereas global market sales is expected to be decreased as the Group plans to reduce marketing expenses as well as discount percentage. Domestic market overperformed due to its tourists' sales in 2023 with total of 650 thousands of tourists visited Mongolia. In 2024, Mongolia is aiming for one million tourists which will impact favorable for the Group's domestic market. In terms of ODM market, the Group is pursuing to cooperate with over 50 clients to keep the cooperation already have. For the global market, the main strategy is being planned to reduce the large marketing expenses and the discount percentage rather to focus on their profitability. So that the Group believes it can build its brand first without offering high discount for the customers with higher marketing expenses.

In terms of operational expenses, the Group decided to reduce marketing expenses and financing cost by focusing on more inventory management. The Group believes this strategy is a proper strategy for the long-term, and sustainable growth for the global market.

On 15 February 2024, Gobi JSC received from its ultimate controlling party, Tavan Bogd Holdings LLC, a letter confirming that Tavan Bogd Holdings LLC will continue to provide financial support to Gobi JSC, so as to enable Gobi JSC to continue as a going concern and to meet its liabilities as they fall due, for at least twelve months from the reporting date of Gobi JSC's 31 December 2023 financial statements. Tavan Bogd Holdings LLC also confirmed to not seek, recall or demand repayment of amounts owed to the entities within the Tavan Bogd Holdings LLC and will continue to provide further funds to cover any cash short fall that may arise.

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

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has right, to variable returns from its involvements with the investee; and
- Has the ability to use its power to affect its returns.

The Company 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 listed above.

Although the investee does not have a majority of the voting rights to influence, the investee is considered to influence if the voting rights held by the Company have a real ability to influence the related activities of the investee.

The following factors are used to assess whether the Company's voting rights have an impact on the financier's operations:

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**GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(IN THOUSANDS OF MONGOLIAN TUGRUGS)**

2. Summary of material accounting policies (continued)

2.3 Basis of consolidation (continued)

- The extent of the Company's voting rights and the distribution, dispersal of the voting rights of other shareholders
- Ability to exercise the voting rights of the Company and other shareholders
- Voting rights agreed upon in other agreements
- Other factors that the Company's voting rights may affect current related activities voting rights

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expense of a subsidiary 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 when the Company ceases to control the subsidiary.

The subsidiaries profit or loss and other comprehensive income are attributable to the shareholders of Group and non-controlling interest. The subsidiaries total comprehensive income is attributed to the Group's shareholders and non-controlling interests, even if the non-controlling interest has a negative balance.

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.

2.3.1 Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Group.

When the Group loses control of a subsidiary, the gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred another category of equity as specified/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments: Acceptance and Measurement*, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.4 Inventories

Inventories are measured at the lowest of purchase and/or production cost, calculated by means of the weighted average cost method, and net realisable value. Purchase cost includes related ancillary costs for purchases in the period. Production cost includes directly attributable costs and a portion of indirect costs reasonably attributable to the products. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Where necessary, an allowance for obsolescence is established for materials or products, in view of their expected use and realisable value.

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**GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(IN THOUSANDS OF MONGOLIAN TUGRUGS)**

2. Summary of material accounting policies (continued)

2.5 Prepayments and advances

Prepayments and advances represent expenses not yet incurred and goods not yet received respectively but already paid in cash. Prepayments and advances are initially recorded as assets and measured at the amount of cash paid. Subsequently, prepaid expenses are charged to profit or loss as they are consumed in operations or expire over time and advances are reclassified to the related assets for which the cash was paid when the goods are received.

Prepayments are classified in the consolidated statement of financial position as current assets when it the Group expects to realise the asset within twelve months after the reporting period. Otherwise, prepayments are classified as non-current assets. At the end of the reporting period, the Group reviews the carrying amounts of its prepayments to determine whether there is any indication that those prepayments may be impaired.

2.6 Property, plant and equipment

Land rights held by the Group are initially recognised as property, plant and equipment of the Group at fair value at the date of acquisition. The Group pays an annual land commission fee to the Government upon acquisition of the land rights which are insignificant. Land rights are not depreciated and measured at revalued amounts. Construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property, plant and equipment are initially measured at cost. The cost of a property, plant and equipment comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- Any costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the accounting policy stated in Note 2.16. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

At the end of each reporting period, property, plant and equipment, other than land and buildings, are measured using the cost model and carried at cost less any subsequent accumulated depreciation and impairment losses.

Land and buildings, measured using the revaluation model, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by independent professional appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from that which would be determined using fair values at the end of each reporting period.

Depreciation on revalued assets is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property's revaluation reserve is transferred directly to retained earnings.

Subsequent expenditures relating to property, plant and equipment that have already been recognised are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group.

All other subsequent expenditures are recognised as expenses in the period in which those are incurred.

Depreciation is recognised as to write-off the cost or valuation of assets (other than land and construction in progress) less their residual values over their useful lives, using the straight-line method, on the following basis:

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**GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(IN THOUSANDS OF MONGOLIAN TUGRUGS)**

2. Summary of material accounting policies (continued)

2.6 Property, plant and equipment (continued)

Property, plant and equipment useful life:

Building	10 – 40 years
Plant and equipment	10 years
Furniture and fixtures	2 – 10 years
Vehicles	10 years
Leasehold improvement	2 – 5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.7 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset that has an indefinite useful life and is purchased separately is measured at cost less any impairment losses.

The useful life of the intangible assets is 2 to 10 years.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain or losses arising from depreciation of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when asset is derecognised.

2.8 Impairment of property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise, they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

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2. Summary of material accounting policies (continued)

2.8 Impairment of property, plant and equipment, right-of-use assets and intangible assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating units exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (groups of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss, other than impairment of goodwill 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 amortization if no impairment loss had been recognised.

2.9 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value excepts for the trade receivable arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition or issue of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

2.10 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

2.10.1 Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

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

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

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

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2. Summary of material accounting policies (continued)

2.10 Financial assets (continued)

2.10.1 Classification of financial assets (continued)

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

The Group's financial assets consist of financial assets at amortised cost.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is initially recorded using the effective interest method for debt instruments measured at amortised cost and at FVTOCI. For credit-impaired financial assets at either origination or at the time of purchase, the interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset.

Financial assets that are subsequently credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial assets. In the event, the financial asset is no longer credit-impaired, the calculation does not revert back to gross basis.

Interest income is recognised in profit or loss and is included in the "finance income" line item.

2.10.2 Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime expected credit losses ("ECL") for trade receivables. Except for those which had been determined as credit impaired under IFRS 9, trade receivables have been assessed individually with outstanding significant balances not secured and exceeding MNT 400 million, the remaining balances are grouped based on past due analysis.

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2. Summary of material accounting policies (continued)

2.10 Financial assets (continued)

2.10.2 Impairment of financial assets (continued)

The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes the prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relates to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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2. Summary of material accounting policies (continued)

2.10 Financial assets (continued)

2.10.2 Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

The Group considers a financial asset to have low credit risk when the asset has an external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying a significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- The significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- Lack of an active market for the financial asset due to financial difficulties.

(iv) Write-off policy

The Group writes-off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written-off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default and (i.e. the magnitude of the loss if there is a default) the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

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2. Summary of material accounting policies (continued)

2.10 Financial assets (continued)

2.10.2 Impairment of financial assets (continued)

(v) Measurement and recognition of expected credit losses (continued)

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

Loans and receivables that are at risk at the reporting date are stated at the carrying amount of the financial asset.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2.10.3 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

2.11 Financial liabilities and equity

2.11.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity under the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2.11.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received net of direct issue costs.

(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.

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2. Summary of material accounting policies (continued)

2.11 Financial liabilities and equity (continued)

2.11.2 Equity instruments (continued)

(ii) Repurchase of share capital (treasury shares) (continued)

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 (Accumulated losses)

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

(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.

2.11.3 Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method. The Group financial liabilities consist of financial instruments measure at amortised cost using the effective interest method.

2.11.3.1 Financial liabilities measured subsequently at amortised cost

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of financial liability.

2.11.3.2 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.12 Revenue recognition

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e., when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or service) that is distinct or service of distinct goods or services that are substantially the same.

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2. Summary of material accounting policies (continued)

2.12 Revenue recognition (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when the performance obligation is satisfied and in particular when it transfers control of a product or service to a customer.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e., only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

The Group's income consists of the following main sources:

- Sale of goods;
- Service income;
- Other revenue

2.12.1 Sale of goods

Sales of goods refers to sales of cashmere, knitwear, sewn and woven products to wholesalers and to retail customers.

Sales to wholesalers are recognised when control of the products is transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the sales channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to a specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract or the group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales to retail customers are recognised when control of the products is transferred, being at the point the customers purchase the goods at the retail shops. Payment of the transaction price is due immediately when the customer purchases products.

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2. Summary of material accounting policies (continued)

2.12 Revenue recognition (continued)

2.12.1 Sale of goods (continued)

It is the Group's policy to sell its products to the retail customer with a right of return within 7 days and the wholesale customers up to certain limits stated in the contracts. Therefore, a contract liability (refund liability) and a right to the returned good assets (included in current assets) are recognised for the products expected to be returned.

The estimated amount of variable consideration is included in the transaction price only to the extent that probably such inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

2.12.2 Service income

Service income mainly refers to dry cleaning and sewing services provided to related parties and other customers.

Revenue is recognised over time as the performance of the Group creates or enhances an asset that the customer controls as the Group performs.

The progress towards complete satisfaction of a performance obligation is measured based on the output method, which is to recognise revenue based on direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

2.12.3 Other revenue

Other revenue mainly comprises the sale of raw materials and semi-finished products to domestic customers.

Other revenue is recognised when customers obtain control of products being the raw materials when the goods are dispatched from the Group's warehouse. Invoices are generated and revenue is recognised at that point in time. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer.

The Group recognises other revenue when the performance obligation is satisfied and in particular when it transfers control of a product or service to a customer and in particular when the goods have been shipped to the customer's specific location (delivery).

2.12.4 Assets and liabilities arising from the right of return

Right of return assets

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

Refund liabilities

Refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

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2. Summary of material accounting policies (continued)

2.13 Leases

2.13.1 Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for some time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such a contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

2.13.2 The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component based on the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of stores and warehouses that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of a right-of-use asset includes:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred by the Group; and
- An estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated financial statements.

Refundable rental deposits

Refundable rental deposits paid are accounted for under IFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

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2. Summary of material accounting policies (continued)

2.13 Leases (continued)

2.13.2 The Group as a lessee (continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- Fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- 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 by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- Payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment;
- The lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease liabilities are presented as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- The modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- The consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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2. Summary of material accounting policies (continued)

2.13 Leases (continued)

2.13.2 The Group as a lessee (continued)

Lease modifications (continued)

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component based on the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Operating lease payments are recognised as an expense on a straight-line basis over lease term. Contingent rentals arising under operating leases are recognised as an expense lease, such incentives are recognised as a liability.

2.13.3 The Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2.14 Foreign currencies

In preparing the financial statements of each group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

Currencies other than MNT are regarded as foreign currencies and transactions denominated in foreign currencies are translated into MNT at the exchange rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into MNT at exchange rates prevailing at the date of the consolidated statement of financial position. Exchange differences arising from the changes in exchange rate subsequent to dates of the transactions for monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss in the period in which they arise.

Non-monetary assets and liabilities denominated in foreign currency are translated at the exchange rates prevailing at the date of the transaction.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Mongolian Tugrugs using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

2.15 Expense recognition

Expenses in the consolidated statement of profit or loss and other comprehensive income are presented using the function of expense method. Costs of sales are expenses incurred that are associated with the goods sold. Operating expenses are costs attributable to administrative, marketing, selling and other business activities of the Group.

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2. Summary of material accounting policies (continued)

2.16 Borrowing costs

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying assets as part of the cost of that asset. Other borrowing costs are recognised 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 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 borrow 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 the 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 borrowing made specifically for the purpose of obtaining a qualifying asset.

2.17 Employee benefits

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.

State pension 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.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

When some or all of the economic benefits required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of the reporting period and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

2.19 Contingent liabilities and assets

Contingent liabilities and assets are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

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2. Summary of material accounting policies (continued)

2.20 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.

2.21 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.

2.22 Related parties

A related party transaction is a transfer of resources, services or obligations between the Group, parent of the Group and a related party, regardless of whether a price is charged. 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; or
- Has significant influence over the Group; or
- Is a member of the key management personnel of the reporting group or a parent of the Group

An entity is related to the Group if any of the following conditions apply:

- The entity and reporting entity are members of the same group which means that each parent, subsidiary and fellow subsidiary is related to each other;
- 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 parties;
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- The entity has a post-employment benefit plan for employee benefits for the Group or one of the Group's related party.
- The entity is controlled or jointly controlled by a person who is a related party as identified above and a person that has control or joint control over the reporting entity has significant influence over the entity or is a member of the key management personnel of the entity or a parent of the entity.

2.23 Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

2.23.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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2. Summary of material accounting policies (continued)

2.23 Taxation (continued)

2.23.2 Deferred tax

Deferred tax is recognised, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognised for all taxable temporary differences. A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. However, deferred tax is not recognised for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognises a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and the carrying amount is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

The preparation of consolidated financial statements in accordance with IFRS Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses of the reporting period. Due to the inherent uncertainty in making those estimates, actual results reported in future periods may be based upon amounts that differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2.23.3 Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised

in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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2. Summary of material accounting policies (continued)

2.24 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.

2.25 Government grants

Government grants are transfers of resource to the Group by a government entity in return for compliance with certain past or future conditions related to the Group's operating activities – e.g. a government subsidy. The Group recognizes the grants in the form of a waiver of expenses – e.g. government subsidized low interest loans, as government grant. Such grants are recognized in profit or loss on a systematic basis as the Group recognizes as expenses the costs the grant is intended to compensate.

Below-market interest rate loan is initially recognized and subsequently measured in accordance with IFRS 9. IFRS 9 required loans at below-market rates to be initially measured at fair value – e.g. the present value of the expected future cash flows discounted at a market-related interest rate. The benefit that is government grant is measured as the difference between the fair value of the loan on initial recognition and the amount received, which is accounted for according to the nature of the grant.

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3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements in accordance with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses of the reporting period. Due to the inherent uncertainty in making those estimates, actual results reported in future periods may be based upon amounts that differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3.1 Critical accounting judgements

3.1.1 Useful life of land and depreciation

The Group's land situated in Mongolia is held under a lease term of 15 to 60 years.

The Land Law of Mongolia provided a legal basis for Mongolian legal entities holding land rights.

The Group paid an upfront fee when the Group first signed the land agreement. Historically, the Group successfully renewed the lease upon expiry at minimal cost, if any. The executive management of the Group finds that the Group can continue to renew the land at minimal cost, if any, and can continue to take possession of the land indefinitely. Thus, the land with a carrying amount of MNT 17,959,888 thousand (MNT 17,959,888 thousand at 31 December 2022) is stated at the revalued amount less accumulated impairment and is not depreciated.

3.1.2 Tax system in Mongolia

The Government of Mongolia continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, the laws and regulations affecting businesses continue to change rapidly.

Taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group.

3.1.3 Determine method to estimate variable consideration and assessing the constraint

Certain contracts for the sale of goods include a right of return that gives rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to be used in estimating the variable consideration for the sale of goods with the right of return, given the large number of customers' contracts that have similar characteristics.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

As at 31 December 2023, the revenue amount to MNT 255,650,516 thousand net of returns and discounts for an amount of MNT 17,310,811 thousand (31 December 2022 the revenue amount to MNT 193,427,609 thousand net of returns and discounts for an amount of MNT 12,447,074 thousand).

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3. Critical accounting judgements and key sources of estimation uncertainty (continued)

3.2 Key sources of estimation uncertainty

The following are the key assumptions used in the estimation uncertainty at the end of the reporting period involving the significant amounts recognised in the consolidated financial statements.

3.2.1 Calculation of loss allowance

The Group estimated 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 related industry in Mongolia.

In these cases, judgement 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 judgement 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 judgements were made or different estimates were utilized. An increase in the allowance for doubtful accounts would increase the recognized operating expenses and decrease current assets.

As at 31 December 2023, the carrying amount of trade and other receivables is MNT 8,030,908 thousand, net of loss allowance of MNT 1,761,809 thousand (31 December 2022 the carrying amount of trade and other receivables is MNT 3,318,986 thousand, net of loss allowance of MNT 1,771,075 thousand).

3.2.2 Inventory provision for obsolete and slow moving items

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. The estimates and associated assumptions are based on historical experience and actual results may differ from the estimation.

The Group's accounting policy is based upon the ageing of inventory, with a percentage provision applied which reflects the actual historical rate of losses made.

The management believes that the assumptions and judgements used are appropriate in determining the valuation of inventories.

As at 31 December 2023, the carrying amount of inventories is MNT 142,521,277 thousand net of provision for inventories of MNT 2,190,587 thousand (31 December 2022: the carrying amount of inventories is MNT 128,791,463 thousand net of provision for inventories of MNT 2,357,493 thousand).

3.2.3 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.

3.2.4 Useful lives of property, plant and equipment

As described in Note 2.6, the Group reviews the estimated useful lives of property, plant and equipment at the end of the reporting period and adjusts if necessary, taking into consideration the usage patterns, the age of the assets and the technological advances. No revisions were made to the useful lives at end of the current reporting period. Possible changes in these estimates may significantly affect profit for the year. Management believes that the current useful lives reflect the economic lives of property, plant and equipment.

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3. Critical accounting judgements and key sources of estimation uncertainty (continued)

3.2 Key sources of estimation uncertainty (continued)

3.2.5 Fair value measurement of land and buildings

Land and buildings are measured at revalued amounts for financial reporting purposes. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified appraiser to perform the valuation. Possible change in these changes could result in revisions to the value of land and buildings.

Information about the valuation techniques and inputs used in determining the fair value of land and buildings are disclosed in Note 10.2.

Deferred income taxes

In calculating deferred income taxes, the Group considers factors such as tax rates, 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 9,276,559 thousand and MNT 14,879,483 thousand as at 31 December 2023 and 2022, respectively.

Total deferred tax liabilities recognised in the Group's consolidated statement of financial position amounted to MNT 7,883,775 thousand and MNT 8,206,834 thousand as at 31 December 2023 and 2022, respectively, see Note 2.23 and Note 24.3.

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4. Application of new accounting standards or amendments for 2023 and forthcoming requirements

4.1 New standards and amendments to IFRS Accounting Standards that are mandatorily effective for the current year

In the current year, the Group has applied a number of new standards or amendments to IFRS Accounting Standards issued by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting periods that begins on or after 1 January 2023.

Effective date	New accounting standards or amendments
1 January 2023	<ul style="list-style-type: none"> IFRS 17 Insurance Contracts Disclosure of Accounting Policies – Amendment to IAS 1 and IFRS Practice Statement 2 Definition of Accounting Estimates - Amendments to IAS 8 Deferred Tax Related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)
23 May 2023	<ul style="list-style-type: none"> International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

The application of the new and amendments to IFRS Accounting Standards in the current year has had no material impact on the Group's financial positions and performance for the current year and on the disclosures set out in these consolidated financial statements.

4.2 New standards and amendments to IFRS Accounting Standards that have been issued but are not yet effective

The new and amendments to IFRS Accounting Standards that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable when they become effective.

Effective date	New accounting standards or amendments
1 January 2024	<ul style="list-style-type: none"> Non-current Liabilities with Covenants – Amendments to IAS 1 Classification of Liabilities as Current or Non-current – Amendments to IAS 1 Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7
1 January 2025	<ul style="list-style-type: none"> Lack of Exchangeability – Amendments to IAS 21
Available for optional adoption / effective date deferred indefinitely	<ul style="list-style-type: none"> Sales or Contribution of Assets between the Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

The above new and amended accounting standards except below are not expected to have a significant impact on the Group's consolidated financial statements.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

These amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosure for non-current liabilities that are subject to future covenants. The amendments apply for annual reporting period beginning on or after 1 January 2024.

The Group has several secured bank loans that are subject to specific covenants. While liabilities that could be classified as non-current at 31 December 2023, a future breach of the related covenants may require the Group to repay the liabilities earlier than contractual maturity dates. The Group is in the process of assessing the potential impact of the amendments on the classification of these liabilities and the related disclosures.

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5. Cash and cash equivalents

	2023	2022
Cash on hand	31,550	40,544
Cash in bank	9,459,561	8,994,375
	9,491,111	9,034,919

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

6. Trade and other receivables

	2023	2022
Trade receivables	7,553,053	2,905,206
Loss allowance	(1,640,363)	(1,640,363)
	5,912,690	1,264,843
Receivables from related parties (see Note 29.2)	129,632	17,222
Other receivables	2,110,032	2,167,633
Loss allowance	(121,446)	(130,712)
	8,030,908	3,318,986

6.1 Trade receivables

The average credit period on sales of goods is 30-90 days within pre-approved credit limits. No interest is charged on overdue trade receivables. Before accepting any new customers, the management of the Group assesses the potential client's credit quality and defines credit limits by each customer.

The Group estimated 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 related industry in Mongolia.

In these cases, judgement 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 judgement 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 Group writes-off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, has entered into bankruptcy proceedings, or when the trade receivables are over ten years past due, whichever occurs earlier. None of the trade receivables that have been written-off was subject to enforcement activities.

As the Group's historical trade receivable default experience does not show significant different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's customer base.

6.2 Other receivables

	2023	2022
VAT and other tax receivables	1,358,657	1,394,152
Receivables from employees	432,179	495,474
Others	319,196	278,007
	2,110,032	2,167,633

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7. Prepayments and advances

	2023	2022
Advance payments to vendors	1,288,446	1,100,746
Prepaid expense	1,885,234	1,217,749
	3,173,680	2,318,495

8. Inventories

	2023	2022
Raw materials	35,591,584	39,237,700
Work in progress	20,703,068	13,904,765
Finished goods	74,816,715	64,176,011
Consumables	13,207,219	10,245,875
Goods in transit	393,278	3,584,605
	144,711,864	131,148,956
Allowance for obsolete and slow-moving items	(2,190,587)	(2,357,493)
	142,521,277	128,791,463

Raw materials include raw cashmere, de-haired cashmere, and cashmere yarns. The cost of inventories charged to the cost of sales during the year amounted to MNT 124.1 billion (31 December 2022: MNT 93.5 billion).

Movement in the allowance for obsolete and slow-moving items:

	2023	2022
Balance at beginning of the year	2,357,493	1,791,496
Addition to allowance for obsolete and slow-moving items (Note 25.5)	594,422	738,563
Reversal of allowance (Note 25.5)	(761,328)	(172,566)
Balance at the end of the year	2,190,587	2,357,493

Inventories with a carrying amount of MNT 138.0 billion (2022: MNT 121.7 billion) has been pledged as collateral for borrowings (see Note 17.1)

9. Right to returned goods assets

	2023	2022
Right to returned goods assets	-	17,227
	-	17,227

The right to returned goods assets represent the Group's right to recover products from customers where customers exercise their right of return under the sales agreement.

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10. Property, plant and equipment

	Land rights	Buildings	Plant and Equipment	Furniture and fixtures	Vehicles	Construction in progress	Leasehold improvement	Total
Cost and revaluation:								
1 January 2022	17,959,888	79,529,075	97,998,348	5,712,260	1,703,325	9,226,896	622,574	212,752,366
Additions	22,727	1,663,991	233,904	514,364	475,596	24,416	-	2,934,998
Disposals	-	-	(54,130)	(25,058)	-	-	-	(79,188)
Transfers to intangible assets	-	-	-	(6,929)	-	-	-	(6,929)
Transfers within PPE	-	-	9,232,941	-	-	(9,232,941)	-	-
31 December 2022	17,982,615	81,193,066	107,411,063	6,194,637	2,178,921	18,371	622,574	215,601,247
Additions	138,178	1,289,639	408,471	1,602,039	187,493	240,679	776,254	4,642,753
Disposals	(22,727)	(1,297,944)	(105,994)	(514,521)	-	-	-	(1,941,186)
Transfers within PPE	-	18,368	(10,706)	10,706	-	(18,368)	-	-
31 December 2023	18,098,066	81,203,129	107,702,834	7,292,861	2,366,414	240,682	1,398,828	218,302,814
Accumulated depreciation:								
1 January 2022	-	9,051,524	53,354,954	3,437,789	895,256	-	608,310	67,347,833
Depreciation charge for the year	-	2,404,373	7,545,344	728,169	166,427	-	-	10,844,313
Disposals	-	-	(53,180)	(5,807)	-	-	-	(58,987)
Transfers to intangible assets	-	-	-	(6,929)	-	-	-	(6,929)
Effect of movements in exchange rate	-	-	11,827	19,755	10,860	-	-	42,442
31 December 2022	-	11,455,897	60,858,945	4,172,977	1,072,543	-	608,310	78,168,672
Depreciation charge for the year	-	2,556,768	7,720,968	950,466	204,333	-	27,292	11,459,827
Disposals	-	(34,896)	(81,719)	(458,363)	-	-	-	(574,978)
Transfers within PPE	-	-	(12,129)	12,129	-	-	-	-
Effect of movements in exchange rate	-	-	-	-	-	-	-	-
31 December 2023	-	13,977,769	68,486,065	4,677,209	1,276,876	-	635,602	89,053,521
Carrying amount:								
31 December 2022	17,982,615	69,737,169	46,552,118	2,021,660	1,106,378	18,371	14,264	137,432,575
31 December 2023	18,098,066	67,225,360	39,216,769	2,615,652	1,089,538	240,682	763,226	129,249,293

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10. Property, plant and equipment (continued)

10.1 Assets pledged as security

As at 31 December 2023, property, plant and equipment with a total carrying amount of MNT 67.8 billion (31 December 2022: total carrying amount of MNT 134.8 billion) has been pledged as collateral for borrowings (see Note 17.1).

10.2 Revaluation of the Group's land and buildings

The Group's land rights and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses. The revaluation of the Group's land rights and buildings were performed by an independent appraiser not related to the Group as at 30 September 2020.

The following table presents the fair value of the revalued land and buildings categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement* :

	31 December 2023		31 December 2022	
	Fair value	Level 3	Fair value	Level 3
Land rights	18,098,066	18,098,066	17,982,615	17,982,615
Buildings	67,225,360	67,225,360	69,737,169	69,737,169
	85,323,426	85,323,426	87,719,784	87,719,784

The following table shows the main valuation techniques used in measuring the fair value of land and buildings:

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.
Land	<i>Cost technique:</i> Fair value of land rights was estimated using the cost approach.

The fair value measurement resulted in total revaluation surpluses of MNT 33,327,139 thousand.

Fair value measurement	Fair value measurements as at 30 September 2020 categorised into			
	Fair value impact	Level 1	Level 2	Level 3
Land	15,345,890	-	-	15,345,890
Buildings	17,981,249	-	-	17,981,249
Total	33,327,139	-	-	33,327,139

The Group reassessed the fair value of these land rights as at 31 December 2023 and did not identify material adjustment from the carrying value as at 31 December 2020, therefore in accordance with IAS 16, the value was not adjusted.

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10. Property, plant and equipment (continued)

10.2 Revaluation of the Group's land and buildings (continued)

Had the Group's land rights and buildings been measured on a historical cost basis, their carrying amount would have been as follows:

	2023	2022
Land rights	2,613,998	2,613,998
Buildings	47,770,068	49,943,903
	50,384,066	52,557,901

10.3 Fully depreciated property, plant and equipment

	2023	2022
Cost	40,115,009	36,454,214

10.4 Depreciation and amortisation charged to profit or loss and cost of inventories

	2023	2022
Depreciation of property, plant and equipment	2,296,760	1,920,898
Depreciation of right-of-use assets (Note 11)	983,636	831,016
Amortisation of intangible assets (Note 13.1)	199,566	197,611
	3,479,962	2,949,525

During the year, Group recognised depreciation expenses amounting to MNT 9,163,067 thousand (31 December 2022: 8,923,415 thousand) in the cost of inventories.

11. Right-of-use assets

	2023	2022
Cost:		
At 1 January	3,275,891	3,428,914
Additions	2,361,658	234,433
Disposals	(521,800)	(387,456)
At 31 December	5,115,749	3,275,891
Accumulated depreciation:		
At 1 January	2,544,167	2,100,607
Charged for the year	983,636	831,016
Disposals	(521,800)	(387,456)
At 31 December	3,006,003	2,544,167
Carrying amount:		
At 31 December	2,109,746	731,724

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11. Right-of-use assets (continued)

11.1 Leases as lessee

The Group leases stores and warehouses for its operations with an average lease term of 3 years. The Group does not have lease agreements with an option to purchase the right-of-use assets at the end of the lease term.

The Group has in total 6 lease agreements that are recognised in accordance with IFRS 16 (4 lease agreements in 2022).

The maturity of lease liabilities is presented in Note 16.

i. Right-of-use assets

	2023	2022
At 1 January	731,724	1,328,307
Additions	2,361,658	234,433
Disposals	(521,800)	(387,456)
Depreciation charge for the year	(983,636)	(831,016)
Depreciation related to disposals	521,800	387,456
At 31 December	2,109,746	731,724

ii. Amounts recognised in profit or loss

	2023	2022
Depreciation expense on right-of-use assets	983,636	831,016
Interest expense on lease liabilities (Note 28)	196,421	183,245
Expenses relating to short-term lease (Note 25.4)	190,602	206,865

iii. Amounts recognised in statement of cash flows

	2023	2022
Total cash outflow for leases	965,391	931,813

11.2 Leases as lessor

As at 31 December 2023, and 2022, the Group did not have any long-term non-cancellable operating leases as a lessor.

The Group has 12-month non-cancellable property lease contracts with its related parties. These lease contracts include a clause for a renewal option same as the initial lease term or 12 months unless either party proposes termination.

The lessee does not have an option to purchase the buildings at the expiry of the lease period. Rental income recognised by the Group during 2023 was MNT 304,289 thousand (2022: MNT 373,611 thousand).

Future minimum lease receivables under non-cancellable operating leases as at 31 December 2023 are as follows:

	2023	2022
Less than one year	332,937	274,382
One to two years	-	-
Two to three years	-	-
Three to four years	-	-
Four to five years	-	-
	332,937	274,382

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12. Investment in subsidiaries

Name of subsidiaries	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2023	2022
Gobi Cashmere Europe GmbH	Trading	Germany	100%	100%
Gobi Cashmere Inner Mongolia Co. Ltd	Trading	China	100%	100%
Goyo LLC	Trading	Mongolia	100%	100%
Gobi Cashmere USA Corp	Trading	USA	100%	100%
Gobi Cashmere United Kingdom	Trading	UK	100%	100%
Gobi Cashmere Kazakhstan LLP	Trading	Kazakhstan	100%	-

* On 23 August 2023, the Group established a new wholly owned subsidiary, Gobi Cashmere Kazakhstan LLP, in Kazakhstan. As at 31 December 2023, Gobi Cashmere Kazakhstan LLP has not yet started any operation.

Financial information of subsidiaries

Summary of financial information of subsidiaries as at and for the year ended 31 December 2023 was as follows:

	2023	Total assets	Total liabilities	Revenue	Profit (loss)
Gobi Cashmere Europe GmbH	20,372,843	86,706,527	26,756,035	(10,228,996)	
Gobi Cashmere Inner Mongolia Co. Ltd	12,308,357	25,402,815	5,986,949	(3,983,329)	
Goyo LLC	8,158,936	30,395	-	(605,747)	
Gobi Cashmere USA Corp	6,446,560	30,834,090	13,493,705	(5,492,583)	
Gobi Cashmere United Kingdom	3,175,727	4,486,534	2,932,399	(1,242,291)	

Summary of financial information of subsidiaries as at and for the year ended 31 December 2022 was as follows:

	2022	Total assets	Total liabilities	Revenue	Profit (loss)
Gobi Cashmere Europe GmbH	13,922,880	68,084,246	32,613,789	(12,079,847)	
Gobi Cashmere Inner Mongolia Co. Ltd	14,148,628	23,574,391	6,147,370	(3,613,415)	
Goyo LLC	8,752,048	17,760	-	(139,132)	
Gobi Cashmere USA Corp	11,333,927	30,449,152	13,714,082	(5,433,793)	
Gobi Cashmere United Kingdom	4,486,988	4,536,993	1,866,549	(50,517)	

13. Other non-current assets

	2023	2022
Intangible assets	1,499,360	448,992
Deposit placed for leased stores	152,121	590,477
Prepayments	6,279,477	547,826
	7,930,958	1,587,295

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13. Other non-current assets (continued)

13.1 Intangible assets

	2023	2022
Cost:		
At 1 January	1,613,485	1,381,356
Additions	1,249,934	226,018
Reclassification from property, plant and equipment	-	6,929
Disposals	(3,300)	(818)
At 31 December	2,860,119	1,613,485
Accumulated amortisation:		
At 1 January	1,164,493	944,332
Disposals	(3,300)	-
Amortisation for the year	199,566	197,611
Reclassification from property, plant and equipment	-	6,929
Effect of movements in exchange rate	-	15,621
At 31 December	1,360,759	1,164,493
Carrying amount:		
At 31 December	1,499,360	448,992

Intangible assets comprise of accounting software with a net carrying amount of MNT 1,286,490 thousand (2022: MNT 226,689 thousand) and trademarks with a net carrying amount of MNT 212,870 thousand (2022: MNT 222,303 thousand).

14. Trade and other payables

	2023	2022
Trade payables*	6,130,757	13,906,484
Payable to fellow subsidiary (Note 29.2)**	10,630,000	42,268
Current portion of long-term payable to Tavan Bogd Holding LLC (Note 18, 29.2)	13,642,760	-
Payable to other related parties (Note 29.2)	703	5,315
Salary payables	2,345,859	1,710,470
Other taxes payables (excluding corporate income tax payables)	4,549,593	3,922,058
Dividend payables (Note 20)	166,406	166,686
Government grants – Deferred income (Note 27)***	1,175,415	-
Other payables	238,633	1,215,911
	38,880,126	20,969,192

* Trade payables mainly consists of payables to foreign and domestic suppliers, with payment terms ranging from 30 - 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the contractual terms.

** On 1 August 2023, the Group entered into a 3-month credit line agreement with fellow subsidiary, Tavan Bogd LLC, for an amount of MNT 30 billion with an interest rate of 15% per annum. On 1 November 2023, the credit line agreement amended, and term extended until 1 February 2024. On 1 February 2024, the loan agreement amended again, and term extended until 1 May 2024.

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14. Trade and other payables (continued)

*** The Group recognized the grants in the form of a low interest loans subsidized by the Government as government grant. Benefit that the government grant is measured as the difference between the fair value of the loan on initial recognition and the amount received. Grants are recognized in profit or loss on a systematic basis as the Group recognizes interest expenses the costs the grant is intended to compensate.

14.1 Contract liabilities

	2023	2022
Amounts received in advance-shown under current liabilities	1,672,424	1,983,898
	1,672,424	1,983,898

Contract liabilities as at 31 December 2023 are expected to be recognised as revenue by 31 December 2024.

15. Refund liabilities

	2023	2022
Arising from rights of return	-	26,503
	-	26,503

In 2023, there is no refund liabilities related to customer's right to return products under the sales agreement.

16. Lease liabilities

	2023	2022
Maturity analysis:		
Within one year	1,236,777	837,663
More than one year but less than two years	510,764	118,446
More than two years but less than five years	1,209,592	-
	2,957,133	956,109
Less: unearned interest	(670,809)	(66,052)
	2,286,324	890,057
Analysed as:		
Current	964,376	777,988
Non-current	1,321,948	112,069
	2,286,324	890,057

The Group does not face a significant liquidity risk in regards to its lease liabilities.

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17. Borrowings

	2023	2022
<i>Short-term:</i>		
Short-term borrowings	227,488,827	127,762,048
Accrued interest payables	5,070,687	2,091,569
Total short-term borrowings	232,559,514	129,853,617
<i>Long-term:</i>		
Long-term borrowings	9,830,059	95,686,234
Total long-term borrowings	9,830,059	95,686,234
Total	242,389,573	225,539,851

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17. Borrowings (continued)

Terms and conditions of outstanding loans were as follows:

Party	Currency	2023 Nominal interest rate (2022)	Loan maturity	Foreign currency (thousands)	31 December 2023				31 December 2022			
					Face value	Effect of fair value measurement	Carrying amount	Interest payable	Foreign currency (thousands)	Carrying amount	Interest payable	
Golomt Bank (subsidized loan) (i)	MNT	11.00%	2025	-	13,333,333	209,569	13,123,764	36,164	-	20,000,000	54,247	
Golomt Bank (Credit line) (i)	MNT	15.65%	2024	-	48,950,000	-	48,950,000	83,760	-	-	12,012	
European Bank for Reconstruction and Development (Tranche 1A) (ii)	USD	6.79%	2024	-	-	-	-	-	1,818	6,262,910	204,356	
European Bank for Reconstruction and Development (Tranche 1B) (ii)	USD	7.49%	2024	-	-	-	-	-	2,727	9,394,364	338,137	
European Bank for Reconstruction and Development (Tranche 2) (ii)	USD	6.93%	2024	-	-	-	-	-	3,273	11,273,235	375,428	
Khan Bank (Credit line) (iii)	MNT	12.60%	2025	-	6,500,000	-	6,500,000	8,334	-	-	-	
Khan Bank (subsidized loan) (iii)	MNT	3.00%	2024	-	4,202,775	33,280	4,169,495	8,982	-	10,000,000	21,370	
Khan Bank (subsidized loan) (iii)	MNT	5.00%	2024	-	10,000,000	247,199	9,752,801	35,616	-	-	-	
Development Bank of Mongolia (iv)	MNT	16.34%	2023	-	-	-	-	-	-	42,900,000	255,754	
Development Bank of Mongolia (iv)	MNT	16.34%	2023	-	-	-	-	-	-	33,333,333	113,424	
Xac Bank (Credit line) (v)	MNT	13.2% (14.4%)	2023	-	-	-	-	-	-	9,566,000	201,904	
Xac Bank (subsidized loan) (v)	MNT	5.00%	2024	-	16,666,667	238,441	16,428,226	68,493	-	-	-	
Arg Bank (subsidized loan) (vi)	MNT	5.00%	2024	-	14,500,000	450,200	14,049,800	59,589	-	-	-	
Asian Development Bank (ADB) (vii)	USD	3.89%+SOFR	2026	12,000	40,928,280	-	40,928,280	104,954	-	-	-	
International Investment Bank (viii)	EUR	4.25%	2027	8,000	30,333,280	-	30,333,280	1,475,377	8,000	29,352,160	162,864	
International Investment Bank (viii)	EUR	5.25%	2027	14,000	53,083,240	-	53,083,240	3,189,418	14,000	51,366,280	352,073	
Total					238,497,575	1,178,689	237,318,886	5,070,687		223,448,282	2,091,569	

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17. Borrowings (continued)

17.1 Summary of borrowing arrangements

(i) Borrowings from Golomt Bank as of 31 December 2023 and 2022 are as follows:

- On 2 May 2022, the Group obtained a loan of MNT 20 billion as a long-term repo financing with an interest rate of 11% per annum for period of 36 months. In 2023, a total amount of MNT 6.7 billion was repaid from principal amount together with its interest.
- On 19 March 2018, the Group entered into a multi-currency credit line agreement with Golomt Bank together with Tavan Bogd Holding LLC and Ulaanbaatar Flour LLC, with a tenor of 2 years with a total credit limit of MNT 90 billion or equivalent amount in USD bearing an interest rate of 16.8% and 8.4% per annum respectively, for working capital financing of the Group, Tavan Bogd Holding LLC, and Ulaanbaatar Guril LLC. The Group's inventory, and equipment are pledged for the loan. On 3 March 2019, the agreement was amended, interest rate per MNT loan changed to 13.5% per annum, 7.2% per annum for USD loan. The loan agreement was extended for 24 months. On 19 March 2023, the agreement was amended, interest rate per MNT loan changed to 15.65%, USD loan changed to 11.05% per annum respectively extended for 12 months until 19 March 2024. A total credit line limit decreased to 50 billion MNT.

(ii) Borrowings from EBRD as of 31 December 2023 and 2022 are as follows:

- In 2017 and 2018, the Group obtained a loan of USD 16 million from EBRD with an annual interest rate of LIBOR + 5.3 percent and LIBOR + 6.0 percent in order to increase its solvency and working capital. The Group's buildings, factory equipment and inventory were pledged against the loan.
- On 24 December 2021 the agreement was amended, the interest rate of LIBOR+5.3% and LIBOR+6% per annum were fixed into 6.79%, 7.49%, and 6.93% per Tranche 1A, Tranche 1B and Tranche 2 each. The fixed interest rate conditions of the loan contract were effective after 18 January 2022. As of 31 December 2023, a total amount of USD 7.8 million of principal payments together with its interest were fully repaid before its maturity date. The Group's buildings, factory equipment and inventory which had been pledged as collateral for borrowing from EBRD were released from collateral on 10 January 2024.

(iii) Borrowings from Khan Bank as of 31 December 2023 and 2022 are as follows:

- On 25 May 2017, the Group entered into a multi-currency credit line agreement with Khan Bank together with Tavan Bogd Holding LLC and its subsidiaries for working capital financing of the Group. On 3 August 2022, the loan amount of the credit line agreement with Khan Bank was amended. Credit limit set as MNT 53 billion and the interest rate was reduced to 12.6% (15.6% for credit line above 45 billion) for MNT loan and 7% for USD loan. On 5 April 2023, the credit limit was amended as MNT 45 billion. On 29 September 2023, the credit limit was amended again from MNT 45 billion to MNT 75 billion. As at 31 December 2023, 78,011,250 ordinary shares (2022: 47,200,000 ordinary shares) of Gobi JSC are pledged by Tavan Bogd Holdings LLC as collateral for this credit line agreement.
- On 13 May 2022, the Group obtained a long-term loan with interest rate of 3% per annum, amounting MNT 10 billion, for the purpose of raw material and financing working capital under the Government policy for "Loans for wool cashmere, leather preparation and production" from Khan Bank. In 2023, a total amount of MNT 5.8 billion was repaid from principal amount together with its interest.
- On 28 June 2023, the Group obtained a short-term loan with interest rate of 5% per annum, amounting to MNT 10 billion, for the purpose of raw material under the Government policy for "Loans for wool cashmere preparation" from Khan Bank.

(iv) Borrowings from Development Bank of Mongolia as of 31 December 2023 and 2022 are as follows:

- On 12 June 2019, the Group obtained a loan for 24 months amounting to MNT 42.9 billion with an interest rate of 12% per annum, for the purpose of acquiring raw materials and financing working capital. On 5 July 2021, an amendment to the loan was made extending the maturity to 14 June 2023.

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17. Borrowings (continued)

17.1 Summary of borrowing arrangements (continued)

(iv) Borrowings from Development Bank of Mongolia as of 31 December 2023 and 2022 are as follows (continued):

- On 22 May 2020, the Group obtained a loan for 12 months amounting to MNT 40 billion bearing an interest rate of 3% for working capital purposes. On 5 July 2021, an amendment to the loan was made, increasing the interest rate to 11.5% and extending the maturity date to 22 May 2022. The Group pledged land, building, plant and equipment, furniture and fixtures, vehicles, raw materials, and future cash revenue for both loans outstanding to the Bank.
- On 7 July 2023, the Group repaid a total of MNT 16.2 billion from a principal amount of both loans and made an amendment with Development Bank of Mongolia. The above two loans were merged into one loan amounting to MNT 60 billion with an interest rate of 16.34% per annum and loan maturity date was extended to 25 December 2023.

- On 10 November 2023, the Group fully repaid the principal amount of the loan together with its interest before its due date.

(v) Borrowings from Xac Bank as of 31 December 2023 and 2022 are as follows:

- On 10 December 2021, the Group, Tavan Bogd Holdings LLC and Tavan Bogd Property LLC entered into a 24-month credit line agreement with Xac Bank for MNT 25 billion with an interest rate of 13.2% per annum. On 8 November 2022, the interest rate of the credit agreement for this line increased by 2.4 points to 15.6%. The terms of this agreement was effective from 1 January 2023. Ultimate controlling party has provided immovable asset guarantee and pledge on behalf of the Group.
- On 14 April 2023, the Group restructured the above loan into a short-term loan with interest rate of 5% per annum, amounting MNT 25 billion, purpose of raw material under the Government policy for "Loans for wool cashmere preparation". In 2023, a total amount of MNT 8.3 billion was repaid from principal amount together with its interest.

(vi) Borrowings from Arig Bank as of 31 December 2023 is as follows:

- On 29 May 2023, the Group obtained a short-term loan with interest rate of 5% per annum, amounting to MNT 14.5 billion, for the purpose of raw material under the Government policy for "Loans for wool cashmere preparation". The Group's inventory was pledged for the loan. Ultimate controlling party has provided cash guarantee and pledge on behalf of the Group.

(vii) Borrowings from Asian Development Bank Mongolia as of 31 December 2023 is as follows:

- On 16 November 2023, the Group signed a loan facility agreement with Asian Development Bank, amounting to USD 30 million with an interest rate of 3.89%+SOFR for the purpose of working capital financing with 36-month term (Tranche A - USD 12 million and Tranche B - USD 18 million).
- On 22 December 2023, the Group received Tranche A loan amounting to USD 12 million.

(viii) The borrowings from International Investment Bank as of 31 December 2023 and 2022 are as follows:

- On 15 May 2020, the Group entered loan agreement total amount with EUR 30 million with the International Investment Bank. In May 2020, the Group received EUR 14 million with interest of 5.25% per annum, and in June 2020, received another EUR 16 million with interest of 4.25% per annum. The EUR 14 million loan will mature on 15 May 2027 and the EUR 16 million loan will mature 12 months from initial issuance, with an option to be reissued after repayment.
- On 14 March 2022, the loan agreement was amended, and "Facility A" loan of EUR 14 million is scheduled to be repaid in May 2027, and the remaining loan of EUR 8 million "Facility B" is scheduled to be repaid in May 2027. The Group's inventory, equipment, and real estate are pledged for the loan.

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17. Borrowings (continued)

17.1 Summary of borrowing arrangements (continued)

(viii) The borrowings from International Investment Bank as of 31 December 2023 and 2022 are as follows (continued):

- In 2023, none of interest and scheduled repayment were made due to unavailability of International Investment Bank payment system based on notification received on 4 May 2023.

17.2 Reconciliation of liabilities arising from financing activities

	Borrowings excluding related parties (Note 17)	Borrowings from related parties (Note 17&29)	Other long- term payable due to related parties (Note 14, 18&29)	Lease liabilities (Note 16)	Dividend payable (Note 20)	Total
At 1 January 2023	215,518,481	10,021,370	30,980,732	890,057	166,686	257,577,326
Proceeds from borrowings	617,893,480	81,700,000	453,670,000	-	-	1,153,263,480
Repayment of borrowings	(616,114,613)	(70,997,225)	(443,040,000)	-	-	(1,130,151,838)
Payment of lease liabilities	-	-	-	(965,391)	-	(965,391)
Dividend paid	-	-	-	-	(280)	(280)
Effect of foreign exchange rate	2,619,216	-	(304,986)	-	-	2,314,230
Other changes	-	-	-	2,361,658	-	2,361,658
Fair value measurement of subsidized loans	(4,391,643)	(1,205,822)	-	-	-	(5,597,465)
Unwinding of discount	3,493,433	925,343	-	-	-	4,418,776
Interest expense	21,461,890	555,651	8,043,236	196,421	-	30,257,198
Interest paid	(18,565,899)	(524,089)	(8,043,236)	(196,421)	-	(27,329,645)
At 31 December 2023	221,914,345	20,475,228	41,305,746	2,286,324	166,406	286,148,049

	Borrowings excluding related parties (Note 17)	Borrowings from related parties (Note 17&29)	Other long- term payable due to related parties (Note 14, 18&29)	Bond payables	Lease liabilities (Note 16)	Dividend payable (Note 20)	Total
At 1 January 2022	226,058,669	-	25,622,107	9,877,213	1,587,437	166,933	263,312,359
Proceeds from borrowings	256,422,309	124,816,586	-	-	-	-	381,238,895
Proceeds from issuance of bonds	-	-	-	7,906,980	-	-	7,906,980
Repayment of bonds	-	-	-	(17,765,164)	-	-	(17,765,164)
Repayment of borrowings	(281,772,927)	(114,816,586)	-	-	-	-	(396,589,513)
Payment of lease liabilities	-	-	-	-	(931,813)	-	(931,813)
Dividends paid	-	-	-	-	-	(247)	(247)
Effect of foreign exchange rate	14,451,051	-	5,358,625	-	-	-	19,809,676
Other changes	-	-	-	(19,029)	234,433	-	215,404
Interest expense	21,735,009	1,048,398	2,219,396	414,278	183,245	-	25,600,326
Interest paid	(21,375,630)	(1,027,028)	(2,219,396)	(414,278)	(183,245)	-	(25,219,577)
At 31 December 2022	215,518,481	10,021,370	30,980,732	-	890,057	166,686	257,577,326

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17. Borrowings (continued)

17.3 Breach of loan covenants and waivers

(a) **Golomt Bank (credit line):** The Group has a secured bank loan from Golomt Bank with a carrying amount of MNT 48,950,000 thousand at 31 December 2023. The loan was repayable within upcoming 1 year. However, the loan contained a covenant stating that at the end of each quarter current ratio should not be less than 1.1, financial debt to EBITDA ratio should be within 13, and liabilities to total active ratio cannot exceed 87%.

The Group has breached above financial ratio covenants as at 31 December 2023, however, management obtained a waiver from Golomt Bank on 28 December 2023, which extends until 30 June 2024. Accordingly, the loan was not payable on demand at 31 December 2023.

(b) **International Investment Bank (IIB):** The Group has a secured bank loan from IIB with a carrying amount of MNT 83,416,520 thousand at 31 December 2023 (2022: MNT 80,898,440 thousand). The loan is repayable in tranches within 4 years. However, the loan contained a covenants such as at the end of each quarter debt to interest for the period to be not less than 2, and financial debt to EBITDA ratio should be within 5.

The Group has breached above financial ratio covenants as at the 31 December 2023, however, management obtained a waiver from IIB on 7 February 2024. In accordance with IAS 1, unconditional right to defer settlement must exist at the reporting date to classify a liability as non-current. As the waiver from IIB was received after the reporting date 31 December 2023, the loan was classified as short-term borrowings in the consolidated financial statements in accordance with IAS 1.

(c) **Asian Development Bank (ADB):** The Group has a secured bank loan from ADB with a carrying amount of MNT 40,928,280 thousand at 31 December 2023. The loan is repayable in tranches within 3 years. The loan contained a covenants such as at the end of each quarter current ratio should not be less than 1.1, interest cover for the period to be not less than 1.9, and financial debt to EBITDA ratio should be within 4.

The Group has breached above financial ratio covenants as at the 31 December 2023, and was not able to obtain a waiver from ADB. As the waiver from ADB was not received at the reporting date, the loan was classified as short-term borrowings in the consolidated financial statements in accordance with IAS 1. However, the Group received second tranche of USD 18 million from ADB in February 2024. The Group expects to receive waiver from ADB after issuance of audited financial statements for the year ended 31 December 2023.

17.4 Collateral

The Group's inventory, property, plant and equipment and shares were pledged for the loan facilities. Please refer to Notes 8, 10 and 19 for details.

17.5 Subsidized loans

In 2023, the Group obtained various government subsidized low interest loans as government grant. Low interest rate loans are initially recognized and subsequently measured in accordance with IFRS 9. The Group initially measured loans at below-market rates at fair value – e.g. the present value of the expected future cash flows discounted at a market-related interest rate. The benefit that is government grant is measured as the difference between the fair value of the loan on initial recognition and the amount received, which is accounted for according to the nature of the grant. Refer to Note 14 for details.

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18. Long-term other payables

	2023	2022
Tavan Bogd Holdings LLC (Note 29.2)	17,032,986	30,980,732
Government grants – Deferred income (Note 14)	3,274	-
Tok Tok LLC	-	4,209
	17,036,260	30,984,941

The terms of advances from Tavan Bogd Holdings LLC with an interest rate of 7.8% per annum (previously 8% per annum) were amended on 1 September 2021 and extended until 24 May 2024. On 1 December 2022, the agreement was amended to extend term until 24 May 2025 with an interest rate of 7.8%.

19. Share capital

	Number of shares		Share capital	
	2023	2022	2023	2022
Balance at beginning of the year	780,112,500	780,112,500	780,113	780,113
Balance at end of the year	780,112,500	780,112,500	780,113	780,113

The share capital as of 31 December 2023 amounted to MNT 780,112.5 thousand and consists of 780,112,500 common shares authorised and issued at par value of MNT 1.00 (31 December 2022: 780,112,500 common shares authorised and issued at par value of MNT 1.00).

As at 31 December 2023, 78,011,250 ordinary shares (2022: 47,200,000 ordinary shares) are pledged by Tavan Bogd Holdings LLC as collateral for credit line loan facility agreement made with Khan Bank on 18 November 2019.

20. Dividend payable

	2023	2022
Balance at beginning of year	166,686	166,933
Dividends paid	(280)	(247)
Balance at end of year	166,406	166,686

As per Resolution No. 01 of the Board of Directors dated 26 January 2024 and as per Resolution No. 02 of the Board of Directors dated 3 February 2023, no dividends were declared for fiscal year 2023 and for fiscal year 2022.

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21. Losses per share

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

	2023	2022
Net loss for the year	(6,767,958)	(6,997,610)
Weighted average number of ordinary shares outstanding	780,112,500	780,112,500
Losses per share (in MNT)	(8.68)	(8.97)

Basic losses per share are calculated by dividing the Group's loss by the weighted average number of shares outstanding for the year. No diluted earnings per share is presented as there are no outstanding shares or options other than ordinary shares.

22. Revaluation reserve

	2023	2022
Balance at beginning of year	44,568,540	48,870,401
Tax impact of revaluation	-	(4,301,861)
Balance at end of year	44,568,540	44,568,540

23. Foreign currency translation reserve

	2023	2022
Balance at beginning of year	(11,436,010)	561,878
Exchange differences arising on translating the net assets of foreign subsidiaries	773,737	(11,997,888)
Balance at end of year	(10,662,273)	(11,436,010)

24. Income tax expense

	2023	2022
Current tax:		
Current tax expense in respect of the current year	1,511,216	3,649,946
Deferred tax:		
Deferred tax expense (benefit) recognised in the current year	5,279,865	(6,648,928)
	6,791,081	(2,998,982)

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24. Income tax expense (continued)

24.1 Current tax

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2023	2022
Profit (loss) before taxation	23,123	(9,996,592)
Theoretical tax credit at statutory income tax rate of 25%	5,781	(2,499,148)
Effect of non-deductible expenses	2,866,713	836,322
Effect of non-taxable income	(107,548)	(186,577)
Tax under the special tax rate	70,602	50,639
Current year tax losses for which no deferred tax asset is recognised	5,388,237	5,214,018
Recognition of previously unrecognised taxable temporary differences	-	452,248
Change in estimates related to prior year	-	(6,866,484)
Recognition of previously unrecognised tax losses	(2,332,160)	-
Derecognition of previously recognised tax losses	899,456	-
Income tax expense /(benefit)	6,791,081	(2,998,982)

According to the Mongolian Corporate Income Tax Law, an annual taxable income of up to MNT 6 billion (MNT 6 billion in 2022) will be taxed at 10% (10% in 2022), and an annual taxable income of more than MNT 6 billion will be taxed at an additional 25% (25% in 2022).

The Mongolian Tax Administration has been implementing the revised set of laws since 2020 using the balance sheet method to calculate the temporary difference between deferred tax assets and liabilities under IAS 12.

The Group had an accrued unused tax losses of MNT 17,959,767 thousand in 2023 (an accrued unused tax losses of MNT 27,288,407 thousand in 2022). Those tax losses were accrued from 2020 and that could be deducted from future taxable profit during the reporting year. This includes deferred tax assets. The tax losses can be carried forward against the future taxable profit for four years as such tax losses incurred in 2020 can be carried forward to 2024.

24.2 Current tax liabilities

	2023	2022
Corporate income tax receivable	-	-
Corporate income tax payable	1,801,506	3,683,126
	1,801,506	3,683,126

	2023	2022
Balance at beginning of the year	3,683,126	111,894
Current tax expense for the year	1,511,216	3,649,946
Payments for income tax	(3,392,836)	(78,714)
Corporate income tax payable	1,801,506	3,683,126

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24. Income tax expense (continued)

24.3 Deferred tax balances

The following are major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

2023	Opening balance	Recognised in profit or (loss)	Recognised in OCI	Closing balance
Deferred tax assets / (liabilities) in relation to:				
Inventories	668,474	(550,166)	-	118,308
Borrowings	6,226,781	(1,421,629)	-	4,805,152
Unused tax losses	7,984,228	(3,631,129)	-	4,353,099
	14,879,483	(5,602,924)	-	9,276,559
Deferred tax assets / (liabilities) in relation to:				
Financial assets	(3,745,918)	(6,605)	-	(3,752,523)
Property, plant and equipment	(4,460,916)	329,664	-	(4,131,252)
	(8,206,834)	323,059	-	(7,883,775)
Net position	6,672,649	(5,279,865)	-	1,392,784

2022	Opening balance	Recognised in profit or (loss)	Recognised in OCI	Closing balance
Deferred tax assets / (liabilities) in relation to:				
Inventories	-	668,474	-	668,474
Borrowings	457,173	5,769,608	-	6,226,781
Unused tax losses	4,177,604	3,806,624	-	7,984,228
	4,634,777	10,244,706	-	14,879,483
Deferred tax assets / (liabilities) in relation to:				
Financial assets	(126,784)	(3,619,134)	-	(3,745,918)
Property, plant and equipment	(182,411)	23,356	(4,301,861)	(4,460,916)
	(309,195)	(3,595,778)	(4,301,861)	(8,206,834)
Net position	4,325,582	6,648,928	(4,301,861)	6,672,649

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25. Revenue and expenses

25.1 Revenue

	2023	2022
Sales of knitwear	159,501,977	125,508,836
Sales of sewn	41,847,534	32,942,210
Sales of woven	44,428,954	30,182,595
Service income	2,002,583	1,612,336
Other	6,433,419	3,181,632
Sales of footwear	1,436,049	-
	255,650,516	193,427,609

25.2 Cost of sales

	2023	2022
Sales of knitwear	78,116,226	59,838,283
Sales of sewn	21,782,380	17,799,533
Sales of woven	23,490,675	15,914,629
Cost of service	1,704,830	1,159,957
Other	5,190,498	3,054,429
Sales of footwear	726,736	-
	131,011,345	97,766,831

25.3 Expense by nature

	2023	2022
Changes in inventories	8,469,488	8,672,912
Raw materials and consumables	94,393,507	53,873,855
Salary and related cost	45,207,429	38,562,935
Depreciation and amortisation	12,643,029	11,872,940
Advertisement expenses	28,114,648	28,876,128
Supplies and consumables	2,138,826	2,043,652
Professional service fees	9,254,644	5,866,382
Selling expenses	3,898,759	2,918,267
Transportation expenses	4,063,595	3,241,126
Others	16,154,021	17,744,517
Total cost of sales, selling and marketing, and general and administrative expenses	224,337,946	173,672,714

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25. Revenue and expenses (continued)

25.4 Selling and distribution expenses

	2023	2022
Marketing and advertising	28,114,648	28,876,128
Wages and remuneration	15,547,966	11,230,522
Professional service fees	8,081,869	5,325,812
Customer promotion expenses	4,968,082	2,219,053
Transportation	4,063,595	3,241,126
Selling expenses	3,898,759	2,918,267
Depreciation and amortization expenses	2,122,065	1,818,572
Supplies and consumables	2,045,054	1,983,317
Other taxes	1,248,430	1,213,128
Business trips	808,326	433,242
Management fees	539,001	539,001
Labor safety expenses	446,997	396,996
Insurance	445,889	243,022
Utilities	387,825	361,341
Repair and maintenance	227,432	262,832
Short-term and low value leases	190,602	206,865
Communication expenses	130,399	120,015
Cleaning services	107,355	115,363
Fuel expenses	76,971	70,969
HR and related costs	37,468	32,880
Other expenses	104,628	159,033
	73,593,361	61,767,484

25.5 Administrative expenses

	2023	2022
Wages and remuneration	10,033,083	7,350,466
Labor safety expenses	1,760,230	1,181,851
Depreciation and amortization expenses	1,357,897	1,130,953
Other taxes	1,252,887	522,299
Professional service fees	1,172,775	540,570
Security expenses	880,619	765,969
Business trips	732,252	64,588
Repair and maintenance	675,114	526,852
HR and related costs	566,205	268,137
Utilities	202,108	188,573
Fuel expenses	129,581	97,309
Supplies and consumables	93,772	60,335
Insurance	83,664	65,489
Communication expenses	78,597	70,024
Bank charges	69,044	45,185
Impairment allowance / (reversal) on inventories, net	(166,906)	565,997
Other expenses	812,318	693,802
	19,733,240	14,138,399

Professional service fees for the fiscal year 2023 include audit fees of MNT 280 million.

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26. Finance income

	2023	2022
Interest income	229,734	29,261
	229,734	29,261

27. Other income and expenses

27.1 Other income

	2023	2022
Rental and other income	583,510	1,162,425
Government grants (Note 14)	4,418,776	-
	5,002,286	1,162,425

27.2 Other expenses

	2023	2022
Net loss on disposal of property, plant and equipment and intangible assets	(6,980)	(13,355)
	(6,980)	(13,355)

28. Finance costs

	2023	2022
Interest expense on borrowings (Note 17.2)	22,017,541	22,783,434
Interest expense on other payable (Note 17.2)	8,043,236	2,219,369
Unwinding of discount on subsidized loans (Notes 17.2 and 17.5)	4,418,776	-
Interest expense on lease liabilities (Note 11)	196,421	183,245
Interest expense on bond	-	414,278
Net foreign exchange loss	954,141	4,978,856
Other finance costs	893,638	400,100
	36,523,753	30,979,282

29. Balances and transactions with related parties

29.1 Related parties

Related party	Relationships
Shareholders	
Tavan Bogd Holdings LLC (formerly Tavan Bogd Trade LLC)	Ultimate controlling party
Hide Inter LLC	Shareholder
Fellow subsidiaries	Subsidiaries of ultimate controlling party
Other related parties	Associate, joint venture and other related parties under control of key management personnel

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29. Balances and transactions with related parties (continued)

29.2 Balances with related parties

The following balances were outstanding at the end of the reporting period:

	2023	2022
Receivables from related parties (Note 6)		
Other related parties	129,632	17,222
Payable to related parties /Short-term/ (Note 14)		
Ultimate controlling party	13,642,760	-
Fellow subsidiaries	10,630,000	42,268
Other related parties	703	5,315
Payable to related parties /Long-term/ (Note 18)		
Ultimate controlling party	17,032,986	30,980,732
Borrowings from related parties (Note 17)		
Other related parties	20,475,228	10,025,578

There are no liens on related party account balances and no provision for bad debts.

Long-term payables to related parties are related to the purchase of shares of Goyo LLC from Tavan Bogd Holdings LLC on credit terms. Please details in Note 18. The Group has not pledged any assets on the agreement.

29.3 Transactions with related parties

The following transactions were incurred with Tavan Bogd Holdings LLC which is the Group's ultimate controlling party:

	2023	2022
Advances received from ultimate controlling party	200,750,000	-
Payment of advances received from ultimate controlling party	200,750,000	-
Advances provided to ultimate controlling party	18,950,000	-
Payment of advances provided to ultimate controlling party	18,950,000	-
Purchases made from ultimate controlling party	1,375,508	1,356,559
Sales made to ultimate controlling party	33,051	7,789
Rental income from ultimate controlling party	-	22,090
Interest income from ultimate controlling party	195,185	-
Interest expense to ultimate controlling party	5,816,451	2,219,369
Payment of interest expense to ultimate controlling party	5,816,451	2,219,369

The following transactions were incurred with other related parties of the Group which are entities under common control:

	2023	2022
Advances received from other related parties (Note 17.2)	252,920,000	105,506,586
Payment of advances received from other related parties (Note 17.2)	242,290,000	105,506,586
Purchases made from other related parties	1,776,029	1,202,395
Purchase made from other related parties	25,932	28,918
Sales made to other related parties	251,554	134,599
Rental income from other related parties	292,062	347,349
Interest expense to other related parties	2,226,785	853,494
Payment of interest expense to other related parties	2,226,785	853,494

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29. Balances and transactions with related parties (continued)

29.3 Transactions with related parties (continued)

The following transactions were incurred with Khan Bank which is an associated entity of the ultimate controlling party:

	2023	2022
Advances received from Khan Bank (Note 17.2)	81,700,000	19,310,000
Payment of advances received from Khan Bank (Note 17.2)	70,997,225	9,310,000
Sales made to Khan Bank	138,672	22,002
Purchase made from Khan Bank	-	1,302,303
Interest expense to Khan Bank	555,651	194,904
Payment of interest expense to Khan bank	524,089	1,027,028

All transactions with related parties are on mutually agreed terms.

29.4 Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	2023	2022
The total amount of salaries and bonuses of the Board members	223,885	195,413
The total amount of salaries and bonuses of the key management personnel	2,119,517	1,566,703

30. Contingent liabilities and commitments

The Group may incur various commitments and contingent liabilities to meet the financial needs and requirements of its customers. As at 31 December 2023 (none in 2022), the Group does not have any significant contingent liabilities.

30.1 Contingent liabilities

Guarantees the Group provides are commitment to make payments on behalf of related parties in the event of a specific act, generally related to tender and bid auction. They generally carry the same risk as loans even though they are contingent.

30.2 Commitments

Commitments means to extend credit representation on contractual commitments on borrowings and revolving credit. Commitments have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. No material losses are anticipated as a result of these transactions.

30.3 Legal claims

Depending on the nature of the Group's business activities, disputes are settled by the courts, and there are formal controls and policies for filing lawsuits and managing legal claims. Obtaining professional legal advice to protect the Group from any adverse effects of any claim on its financial position will reduce the risk. At the end of the reporting period there were no significant litigations.

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31. Financial instruments and financial risk management objectives

Introduction

The main risks inherent in the Group's risk management of financial risks are credit risk, liquidity risk and market risk. Market risk is the risk that the value of the Group's income and financial assets will waver due to changes in market factors such as interest rates and foreign exchange rates.

The primary goal of risk management is to maximize the Group's risk-adjusted return on assets through the process of allocating, identifying, measuring and monitoring assets across business segments in line with risk/return ratios. This risk management process is critical to the continued profitability of the Group. It is to create a management system compatible with the general concept and direction of the Group, define the rights and responsibilities of the participants, successfully implement risk management, monitor the implementation and continuously improve it.

The Group's risk management system is not designed to eliminate risk, but rather to maintain an optimal risk-return ratio. "Risk management policy" includes a complex scope of basic and organizational measures aimed at creating, implementing, monitoring, analysing and constantly improving the risk management structure at the company level.

The Group's goals are consistent with risk acceptance normative. Risk management includes strategic risks, compliance risks, financial risks, operational risks, force majeure risks and other risks of a contemporary nature. The Group manages risk through quarterly review in accordance with risk recognition norms within the framework of the risk management policy established by the Board of Directors. These recognition standards are established in accordance with the Group's business strategy, market conditions and operations.

Risk Management Structure

The Board of Directors recognizes that clear implementation of collective oversight and risk management responsibilities is one of the primary objectives.

The risk management system consists of two main levels: governance and implementation. The Group's risk management system consists of the Board of Directors and the Risk and Audit Committee attached to it. The implementer of the risk policy will be the risk management team, and the Chief Executive Officer will appoint the members of the team in accordance with the "Risk Management Policy".

The first line of defence is the management and all employees of the risk management unit, the second line is the Risk Management Team, and the third line is the Internal Audit Department.

The Board of Director's Risk and Audit Committee

The Board of Director's Risk and Audit Committee is responsible for assisting the Board in fulfilling its oversight responsibilities for its compliance with legal and regulatory requirements, and internal controls and functions.

Internal Audit

In the Group's risk management process, Internal Audit works according to the directions given by the Risk Audit Committee. The appropriateness of the policies, rules and regulations implemented throughout the Group and how the Group implements them is monitored and the results are reported to the Board of Directors.

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31. Financial instruments and financial risk management objectives (continued)

Sustainable Development Department

The purpose of this department is to determine environmental, social, and governance indicators that align with the Group's activities within the framework of the 17 Sustainable Development Goals, and to manage and monitor activities to ensure their implementation.

The implementation of risk management is managed by this department. It includes:

1. It is organized to create a unified risk register at the Group level, conduct a detailed risk analysis and evaluation, develop a risk management plan, provide the management with the necessary information, and spread the risk culture.
2. In accordance with the risk management policies and procedures, the environment where there may be certain risks is detected, and the proposals for managing/reducing them are developed and presented to the risk management team.
3. Reports on risk response measures and activities are presented to the Risk and Audit Committee every quarter, and they work with direction.

Risk Mitigation

Interest rate risk, foreign currency exchange rate changes, credit risk, and possible risks arising from future activities are monitored by sensitivity analysis. Certain measures are taken to mitigate the risk and are detailed below.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

To avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. For example, it controls and manages concentrations by developing retail sales online, through in-store and ordering channels, opening branches in other international regions, or developing appropriate marketing policies.

31.1 Credit risk management

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial losses for the Group.

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:

	2023	2022
Cash in bank	9,459,561	8,994,375
Deposit placed for lease stores	152,121	590,477
Trade and other receivables*	6,672,251	1,924,834
	16,283,933	11,509,686

*Excludes taxes receivable of MNT 1,358,657 thousand in 2023 and MNT 1,394,152 thousand in 2022.

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31. Financial instruments and financial risk management objectives (continued)

31.1 Credit risk management (continued)

Impairment losses / reversal of impairment on financial assets recognised in profit or loss were as follows:

	2023	2022
Impairment loss on trade and other receivables	-	(3,478)
Reversal of impairment loss on trade and other receivables	9,266	52,942
	9,266	49,464

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

	2023	2022
Domestic	2,554,928	1,012,147
Foreign	4,117,323	912,687
	6,672,251	1,924,834

Currently, there is no independent rating agency service available in the local market. Therefore, the Group adheres to the policy of selling on credit within the pre-approved credit limit with long-term and reliable customers. Every year, sales contracts are concluded with customers, renewed and confirmed, and the fulfilment of the terms of the contract is constantly monitored.

There are no credit risk measures taken in relation to the Group's financial assets. In 2023 and 2022, there are no accounts receivable insured or secured by letters of credit.

The management of the Group considered the level of financial credit risk corresponding to bank current accounts placed with domestic banks and financial institutions with high credit ratings to manage the credit risk to be low. The management believes that the probability of default is low and therefore impairment allowance was not recognized.

The Group estimated 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 related industry.

In these cases, judgement 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 judgement to record specific allowances for counterparties against amounts due to reduce the expected collectible amounts.

The Group writes-off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, has entered into bankruptcy proceedings, or when the trade receivables are over ten years past due, whichever occurs earlier.

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31. Financial instruments and financial risk management objectives (continued)

31.1 Credit risk management (continued)

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

31 December 2023	Gross carrying amount	Loss allowance	Credit impaired
Neither past due nor impaired	6,595,239	-	0.00%
Past due 0-30 days	-	-	0.00%
Past due 31-60 days	-	-	0.00%
Past due 61-90 days	-	-	0.00%
Past due more than 91 days	1,838,821	(1,761,809)	95.81%
	8,434,060	(1,761,809)	20.89%

31 December 2022	Gross carrying amount	Loss allowance	Credit impaired
Neither past due nor impaired	1,913,329	-	0.00%
Past due 0-30 days	5,442	-	0.00%
Past due 31-60 days	559	-	0.00%
Past due 61-90 days	8	-	0.00%
Past due more than 91 days	1,776,571	(1,771,075)	99.68%
	3,695,909	(1,771,075)	58.19%

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

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2023	2022
Balance at 1 January	1,771,075	1,843,519
Loss allowance	-	3,478
Reversal of loss allowance	(9,266)	(52,942)
Amounts written-off	-	(22,980)
Balance at 31 December	1,761,809	1,771,075

Details of the impairment assessment on trade receivables are set out in Note 6.

The management of the Group has made individual assessments on the recoverability of other receivables based on historical settlement records and adjusts for forward-looking information. The management of the Group has assessed that other receivables did not have a significant increase in credit risk since initial recognition and risk of default is insignificant, and therefore, no impairment has been recognised.

The Group performs ongoing credit risk assessment based on the condition of the trade receivables and when necessary, the Group purchases insurance on the payment risk of the outstanding balance. The Group also requires full payment of any outstanding amounts prior to fulfilling the next order for the customer.

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31. Financial instruments and financial risk management objectives (continued)

31.2 Liquidity risk management

Liquidity risk arises when the Group encounters difficulty in meeting the obligations associated with its financial liabilities. The Group's objective of managing liquidity risk 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.

Ultimate responsibility for liquidity risk management rests with the Board of Directors of the Group, which is to establish an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity risk management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing reserves, by continuously monitoring the forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables illustrate the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group may be required to pay. The tables include both interest and principal cash flows.

	On demand and less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total	Carrying amount
31 December 2023						
Trade and other payables (including non-current) *	8,754,777	12,221,818	18,703,249	17,417,889	57,097,733	51,366,793
Short-term and long-term borrowings	79,057,909	30,405,374	48,900,870	124,704,197	283,068,350	242,389,573
Short-term and long-term lease liabilities	118,443	355,330	763,004	1,720,356	2,957,133	2,286,324
	87,931,129	42,982,522	68,367,123	143,842,442	343,123,216	296,042,690

	On demand and less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total	Carrying amount
31 December 2022						
Trade and other payables (including non-current) *	15,913,627	1,543,430	1,839,888	33,585,213	52,882,158	48,032,075
Short-term and long-term borrowings	61,565,224	20,829,946	39,712,592	124,300,878	246,408,640	225,539,851
Short-term and long-term lease liabilities	93,446	186,891	557,326	118,446	956,109	890,057
	77,572,297	22,560,267	42,109,806	158,004,537	300,246,907	274,461,983

*Excludes taxes payable of MNT 4,549,593 thousand in 2023 and 3,922,058 thousand in 2022.

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31. Financial instruments and financial risk management objectives (continued)

31.3 Market risk

Market risk refers to the possibility that changes in market prices, such as foreign exchange rates, interest rates will affect the Group's profit or the value of its holdings of financial instruments. The Group focuses on two main market risk areas, which are interest rate risk and foreign currency risk. The objective and management of these risks are described in more detail below.

31.3.1 Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The cash flow interest rate risk arises from floating rate borrowings while fair value interest rate risk arises from fixed rate borrowings. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings. The Group does not use hedging instruments to manage interest rate risk.

At the reporting date the interest profile on the Group's interest-bearing financial instruments was:

	2023	2022
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(246,127,098)	(257,410,640)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(41,033,234)	-
	(285,984,917)	(257,410,640)

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to floating interest rates for non-derivative instruments at the end of the reporting period. The floating interest rate liabilities assessment is prepared based on the assumption that any liabilities with floating interest rates were outstanding throughout the whole year. At the executive management level, interest rate risk assessment assumes that a possible change in interest rate increases or decreases by 50 basis points.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2023 would increase or decrease by MNT 205,166 thousand (31 December 2022 nil). This is mainly attributable to the Group's exposure to interest rates on its floating interest rate borrowings.

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31. Financial instruments and financial risk management objectives (continued)

31.3 Market risk (continued)

31.3.2 Foreign currency risk management

The Group incurs foreign currency risk on purchases and payments denominated in a currency other than MNT. The Group does not manage these exposures with foreign currency derivative products.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date presented in MNT are as follows:

	USD	EUR	CNY	Other
31 December 2023				
Cash and cash equivalents	195,211	1,809,930	1,482,746	247,357
Trade and other receivables	957,665	2,853,995	1,412,036	9,053
Trade and other payables	(34,903,250)	(2,751,869)	(323,527)	(524,624)
Short-term and long-term borrowings	(41,033,234)	(88,081,315)	-	-
Lease liabilities	-	(1,631,568)	-	-
	(74,783,608)	(87,800,827)	2,571,255	(268,214)

	USD	EUR	CNY	Other
31 December 2022				
Cash and cash equivalents	1,265,170	2,954,694	1,482,351	2,523,824
Trade and other receivables	48,494	263,079	1,579,473	27,764
Deposit placed for leased stores	68,892	477,316	44,269	-
Trade and other payables	(11,541,073)	(5,546,470)	(215,039)	(399,351)
Short-term and long-term borrowings	(27,848,430)	(81,233,377)	-	-
Lease liabilities	(111,185)	(273,152)	-	-
	(38,118,132)	(83,357,910)	2,891,054	2,152,237

The following significant exchange rates were applied during the year.

<i>(In MNT)</i>	Average rate		Reporting date spot rate	
	2023	2022	2023	2022
USD	3,466	3,141	3,466	3,445
EUR	3,747	3,302	3,792	3,669
CNY	490	466	480	495

Foreign currency sensitivity analysis

The Group is mainly exposed to USD, EUR, CNY, GBP and JPY (together referred to as "the foreign currencies"). The following table shows the Group's sensitivity to a 10% increase or decrease in the MNT against the foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

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31. Financial instruments and financial risk management objectives (continued)

31.3 Market risk (continued)

31.3.2 Foreign currency risk management (continued)

A 10% strengthening of MNT against foreign currencies held by the Group as at the date of the consolidated statement of financial position would increase profit after tax by the amount shown below. This analysis assumes all other risk variables remain constant.

	2023 profit / (loss) before tax		2022 profit / (loss) before tax	
	Strengthening (10% increase)	Weakening (10% decrease)	Strengthening (10% increase)	Weakening (10% decrease)
USD	7,478,361	(7,478,361)	3,811,813	(3,811,813)
EUR	8,780,083	(8,780,083)	8,335,791	(8,335,791)
CNY	(257,126)	257,126	(289,105)	289,105
Other	26,821	(26,821)	(215,224)	215,224

A 10% weakening of MNT against the foreign currencies held by the Group as at the date of the consolidated statement of financial position would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other risk variables remain constant.

31.4 Fair value of financial instruments

The Group follows the following hierarchy for determining and disclosing the fair value of financial instruments based on the level of significant inputs used in the measurement.

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:

(i) Financial assets and liabilities for which fair value approximates carrying amount

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

(ii) Fixed rate 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.

The Group's financial instruments consist of financial assets and financial liabilities carried at amortised cost.

The management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

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31. Financial instruments and financial risk management objectives (continued)

31.4 Fair value of financial instruments (continued)

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

	2023		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised cost				
Cash and cash equivalents	9,491,111	9,491,111	9,034,919	9,034,919
Trade and other receivables	6,672,251	6,672,251	1,924,834	1,924,834
	16,163,362	16,163,362	10,959,753	10,959,753
Liabilities carried at amortised cost				
Trade and other payables	33,155,118	33,155,118	17,047,134	17,047,134
Short-term and long-term borrowings	242,389,573	242,389,573	225,539,851	225,539,851
Short-term and long-term lease liabilities	2,286,324	2,286,324	890,057	890,057
Other long-term payables	17,032,986	17,032,986	30,984,941	30,984,941
	294,864,001	294,864,001	274,461,983	274,461,983

32. Segment information

Information reported to the Chief Executive Officer, being the Chief operating decision maker, for resource allocation and assessment of segment performance focuses on the types of sales delivered or provided, in respect of the 'Domestic sales' and 'Export sales' operations by the line of products and cost of sales to provide a gross margin analysis.

For the purpose of management analysis and decision making, the Group allocates the sales based on the customer type, location, sales delivery and type into the following 3 operational segments, 'Domestic', 'Export /wholesale', and 'Export /online'.

Other than revenue and cost of sales, no other income and expenses are allocated for segment reporting purposes. Similarly, the Group decided to perform constant monitoring, but to not report the assets and liabilities in segments.

GOBI JSC AND ITS SUBSIDIARIES
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32. Segment information (continued)

32.1 Segment revenue and results

		Segment revenue		Segment profit	
		2023	2022	2023	2022
Domestic sales	Knitwear	73,409,276	47,020,319	38,805,437	24,553,879
	Sewn	33,619,320	25,851,676	16,769,500	11,996,860
	Woven	32,291,323	17,001,136	15,675,431	8,602,065
	Service income	2,002,583	1,612,336	297,753	452,379
	Other	4,304,406	2,014,839	(52,857)	(473,011)
	Footwear	1,369,766	-	671,480	-
		146,996,674	93,500,306	72,166,744	45,132,172
Export sales /wholesale/	Knitwear	45,662,090	33,569,927	14,589,610	12,185,635
	Sewn	4,136,844	2,181,496	1,220,470	955,590
	Woven	7,594,053	8,672,411	2,147,805	3,299,531
	Other	2,089,427	1,161,679	1,302,926	631,145
	Footwear	2,340	-	769	-
			59,484,754	45,585,513	19,261,580
Export sales /online/	Knitwear	40,430,611	44,918,591	27,990,704	28,931,039
	Sewn	4,091,370	4,909,037	2,075,184	2,190,227
	Woven	4,543,578	4,509,048	3,115,043	2,366,370
	Other	39,586	5,114	(7,148)	(30,931)
	Footwear	63,943	-	37,064	-
			49,169,088	54,341,790	33,210,847
		255,650,516	193,427,609	124,639,171	95,660,778
Other income				5,002,286	1,162,425
Selling and distribution expenses				(73,593,361)	(61,767,484)
Administrative expenses				(19,733,240)	(14,138,399)
Reversal of impairment loss on financial assets				9,266	49,464
Other expense				(6,980)	(13,355)
Finance income				229,734	29,261
Finance costs				(36,523,753)	(30,979,282)
Profit before tax				23,123	(9,996,592)

No single customer contributed 10% or more to the Group's revenue for both 2023 and 2022.

GOBI JSC AND ITS SUBSIDIARIES
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32. Segment information (continued)

32.2 Geographical information

The Group sells their products in different geographical areas as detailed below:

	Revenue from external customers		Non-current assets	
	2023	2022	2023	2022
Mongolia	147,064,251	93,502,725	136,124,801	138,751,850
Asia Pacific	29,763,886	33,298,349	78,937	44,269
Europe	59,945,974	50,408,791	3,081,221	726,782
Russia	1,429,718	1,014,976	-	-
North America	17,386,232	15,202,334	5,038	228,693
Australia and New Zealand	60,455	434	-	-
	255,650,516	193,427,609	139,289,997	139,751,594

Information about the Group's revenue from external customers is presented based on the location of the customers. This information also presents the Group's non-current assets based on their geographical location.

Non-current assets exclude deferred tax assets.

33. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings net off by cash and bank balances) and equity, comprising issued capital, reserves and retained earnings.

34. Contractual obligations

The Group did not have any significant contractual obligations as at 31 December 2023 and 2022.

35. Events after the reporting period

As per Resolution No. 01 of the Board of Directors dated 26 January 2024, no dividends were declared in 2024.

Tavan Bogd Holdings LLC acquired 257,437,125 shares of Gobi JSC (representing 33% of Gobi JSC's issued shares) from Hide Inter LLC on 15 March 2024. As a result of the transaction, Tavan Bogd Holdings LLC owns 84.29% of Gobi JSC.

36. Report translation

These consolidated financial statements are also prepared in the Mongolian language. In the event of discrepancies or contradictions between the Mongolian and English versions, the English version will prevail.

OUR PARTNERS

BANK AND FINANCE



GOVERNMENT AGENCIES



E-COMMERCE



EQUIPMENT AND MACHINERY



TRANSPORT LOGISTICS



SUPPLY



SUSTAINABLE DEVELOPMENT



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DARKHAN CITY STORE

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