GOBI
MONGOLIAN CASHMERE

GOBI JOINT STOCK COMPANY

ANNUAL REPORT 2022

CONTENTS

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, 3th 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 Facebook: GOBICashmere Online shops: Domestic: gobi.mn Europe: gobicashmere.com USA: gobicashmere.com/us UK: gobicashmere.com/uk China: gobicashmere.cn
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 5,1981
Total number of employees	1,548
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
Number of stores	Domestic Ulaanbaatar 2 Darkhan city 1 Online store 1 International Subsidiary 4 Branch store 1 Franchise store 22 Online store 6

VISION, MISSION, VALUES AND SLOGAN

OUR VISION
We make cashmere a lifestyle

OUR MISSION
We provide everyone with stylish, affordable, and quality cashmere

OUR SLOGAN
Cashmere for all

VALUES

RESPECT
We embrace diversity and exchange ideas openly with mutual respect.

PASSION & SINCERITY
We are a team, full of determination and desire to achieve our goals.

HONESTY & TRANSPARENCY
We value the participation of each stakeholder and operational transparency.

RESPONSIBILITY
We are driven to act responsible towards our society and environment, our stakeholders, our actions and consequences and strive for the goal of sustainability.

CREATIVITY
We seek new ideas and creative development while aiming to exceed expectations.

HISTORY TIMELINE

1977

The Japanese government granted the government of the People's Republic of Mongolia 5 billion yen, and the two governments agreed to build a factory for goat cashmere and camel wool processing in Ulaanbaatar.

1981

The installation and adjustment of the machinery and equipment for the goat cashmere and camel wool processing plant were completed and the technology line was put into operation. GOBI, the first factory, opened its doors through Mongolian-Japanese cooperation.

1987

The SET-092, a Japanese knitting machine with automatic computer control, was installed at the factory.

1991

The GOBI factory was the first in Mongolia to receive the International Quality Award and certificate, after gradually implementing the international ISO-9000 standard and exporting 98% of its manufactured goods.

1993

The GOBI state-owned enterprise was reorganized as the GOBI JSC, a listed company of the Mongolian Stock Exchange, trading 25.1% of its total registered capital, or 1,919,061 shares, following the decision of the Privatization Commission of the Government of Mongolia.

1997

Mongolia's first factory to produce woolen cashmere blankets, cashmere cloth, drape, and fine yarn, GOBI Factory - 2, was officially opened.

1998

GOBI JSC expanded its global reach by establishing subsidiaries such as Altai in Japan, GOBI Europe in Belgium, and GOBI-USA in the United States. The company also formed partnerships with over 30 countries worldwide.

2000

The yarn dyeing technology was introduced. The STOLL-330 knitting machine, which is connected to a modern computer system, was installed.

2007

Through an international open tender, FCI LLC acquired 73.45% of GOBI shares, which were previously owned by the state. As a result, GOBI became entirely privately held.

2008

The GOBI Factory Store, designed by the famous Japanese architect Sako Keichiro, officially opened its doors.

2009

Opened our branch store in Tokyo, Japan. GOBI also entered into a cooperation agreement with the Italian VVA Consulting Company. We implemented staged technical and technological renovations in our factory.

2010

In the framework of their 30th anniversary, GOBI collaborated with renowned Italian fashion designer Saverio Palatella and introduced print technology to the Mongolian cashmere industry for the first time.

2011

GOBI JSC doubled its production capacity. In collaboration with Saverio Palatella, the first collection "GOBI by Saverio Palatella" was launched and GOBI JSC marked its 30-year anniversary.

2012

GOBI opened a new branch store in front of Central Square in Ulaanbaatar and launched a new Fall/Winter 2012 collection "GOBI by Saverio Palatella".

2013

GOBI has introduced the new Whole Garment technology which increased the factory's production capacity.

2014

The GOBI Mongolian Organic Cashmere brand was launched in 2012. It is distinguished by its use of natural cashmere colors, which are beige, white, brown, and warm gray.

2015

GOBI independently introduced Amoeba management, a method founded by Kyocera, a famous Japanese company.

2016

GOBI publicly announced the goal of becoming the number one company in producing 100% cashmere coats and opened a branch store in Berlin, Germany.

2017

GOBI opened its new sewing factory with a capacity of 100,000 cashmere coats and blazers as well as releasing their e-commerce platform by launching the website www.GOBIcashmere.com.

2018

Installed the Italian Bigagli spinning mule machine in the spinning factory, improving yarn quality. Started mass production of cashmere blazers and became the world's leading manufacturer of cashmere blazers.

2019

GOBI JSC successfully acquired Goyo LLC, the second-largest cashmere company in Mongolia. This acquisition is one of the largest mergers in the cashmere industry.

2020

GOBI JSC was awarded the highest State Award, "Order of Sukhbaatar." GOBI also launched their B2C e-commerce business model into the markets of the Russian Federation, French Republic, Republic of Poland, Kingdom of Norway, Kingdom of Sweden, UK, and Northern Ireland.

2021

GOBI JSC's 1,500 employees became shareholders and investor employees of the company.

2022

The GOBI's board of directors approved the commitment to sustainable development. They laid the foundation for sustainable development activities within the framework of Environment, Society and Governance (ESG) in all the company's activities. The company also obtained ISO 14001:2015 and ISO 45001:2018 certification for its integrated management system.

GREETINGS FROM THE CHAIRWOMAN

Dear Shareholders, I extend my warmest greetings to you.

Since its establishment in 1981, GOBI JSC has steadily expanded its operations, thanks to the unwavering dedication and hard work of its investors, shareholders, suppliers, customers, and the company's management and employees.

As one of the premier 20 companies listed on the Mongolian Stock Exchange, our company has been at the forefront of adhering to corporate governance principles and adopting the best international governance practices. We consistently strive to enhance and harmonize the interests of our shareholders, augment investment returns, and ensure transparency in providing information. Last year, the number of our company's shareholders grew by 1,556, reaching a total of 23,172 shareholders.

In recent times, with the world embracing sustainability, the perspectives and objectives of businesses are undergoing a transformation. Companies now strive to generate long-term value for stakeholders and achieve sustainable growth by considering the impact of their activities on the environment, society, and governance (ESG). In alignment with this global shift, our company, engaged in global market operations and serving an international clientele, endeavors to integrate the principles of sustainable development throughout its operations. We are committed to environmentally conscious production, safeguarding the interests of our employees and stakeholders, and continually enhancing our governance practices.

In the year 2022, the Board of Directors has set a clear objective to focus on sustainable development and ESG (Environmental, Social, and Governance). In April, the "Sustainable Development Commitment" was officially endorsed. In line with this commitment, we have developed and approved sustainable development policies and objectives. We actively monitor their implementation through board meetings and provide guidance to the management team.

Furthermore, the management team devised and executed a comprehensive strategy to systematically enhance the organizational culture and elevate employee satisfaction. An outstanding accomplishment this year was the establishment of the "GOBI Kids" kindergarten dedicated to the children of our valued employees. In recognition of our outstanding efforts, GOBI JSC was honored with the esteemed title of the best industry and business organization supporting family development in 2022. This prestigious recognition was bestowed upon us during a distinguished event organized by the Office of the Capital Governor and the Department of Family, Children, and Youth Development.

In 2022, despite the indirect repercussions on our company due to the enduring impact of COVID-19, the escalating geopolitical and geo-economic tensions among major global powers, and the region neighboring our country descending into a state of conflict, our sales revenue was increased by 34 percent compared to the preceding year, reaching a remarkable total of 193.4 billion MNT.

Starting in 2019, we embarked on a path of substantial strategic investments aimed at bolstering our global visibility, fostering competitiveness in the international market, and solidifying our position as a renowned global brand. By maintaining a steadfast focus on long-term development, we have effectively laid a robust groundwork for our forthcoming expansion.

Starting in 2019, we embarked on a path of substantial strategic investments aimed at bolstering our global visibility, fostering competitiveness in the international market, and solidifying our position as a renowned global brand. By maintaining a steadfast focus on long-term development, we have effectively laid a robust groundwork for our forthcoming expansion.

Moving forward, our primary objective will be to expand brand recognition in the international market, ensuring that people from all walks of life enjoy the stylish, affordable, and high-quality cashmere products from GOBI. Additionally, we will optimize our resources to recoup previous investments, drive sales growth, and increase shareholder value. We express our deep gratitude to our dedicated employees, loyal customers, esteemed partners, shareholders, and all stakeholders for their unwavering support.

May your endeavors be met with success, and may good health and prosperity accompany you in all your pursuits!

Sincerely,

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

GREETINGS FROM THE CHIEF EXECUTIVE OFFICER

Dear shareholders, customers, business partners, and colleagues,
we send our warmest greetings to each and every one of you.

GOBI JSC, with the motto "Cashmere for all," has been flourishing for 42 years since its establishment. I am honored to mention that the unwavering dedication and hard work of our employees and organizational management throughout these years have not only contributed to the growth of our company's operations and garnered national recognition but have also fueled our aspiration to be acknowledged as a globally renowned brand, offering direct access to our exceptional products for consumers worldwide.

Despite the persistent impact of the pandemic in the first half of 2022, Mongolia's decision to open its borders during the mid-year has resulted in a significant surge in tourist arrivals. This decisive action has effectively fueled the recovery of the tourism sector, leading to a notable increase in visitor numbers to our nation. As a result, our domestic sales have experienced a highly favorable outcome, reaching a total of 93.5 billion MNT and marking a remarkable 40% escalation compared to the previous year.

Regarding online sales, the allocated marketing budget for promoting the GOBI brand to global consumers experienced a substantial reduction of 28% in 2022 compared to the previous year. Furthermore, the customer acquisition cost in the European market decreased impressively by 3.1 times, reaching a mere 15 euros. Additionally, there was a notable increase in the total number of registered users, with an increase of 400,000 from the previous year, resulting in a current count of 653,000. These registrations translated into effective sales of 54.3 billion MNT, reflecting 33% increase from the previous year. Furthermore, we expanded our market presence by establishing a subsidiary company in Great Britain and enhancing our sales channels. Through collaboration with experienced partners in the international market, we prioritized the primary online sales platform, www.GOBIcashmere.com, and embarked on a comprehensive overhaul. This encompassed significant improvements to our brand image, photography, content, website design, and development. The newly transformed website was successfully launched in July, boasting a completely rejuvenated appearance.

With the aim of implementing integrated management system standards, we achieved the successful acquisition of ISO45001:2018 Occupational Health and Safety Management System and ISO14001:2015 Environmental Management System certifications in the previous year. Furthermore, we established a valuable collaboration with a distinguished and experienced yarn factory in Japan, which is recognized as a leader in the field. Through knowledge exchange and cooperative efforts, we have enhanced the quality of our cashmere yarns. Additionally, since December, we have been partnering with a world-renowned Italian fashion designer to refine and elevate our product designs, aspiring to offer competitive products in the global market. Under the "Happy Employee" objective of our Sustainable Development Policy, our company strives to uphold a harmonious work-life balance for our employees. We are dedicated to cultivating a conducive and positive workplace environment that fosters growth, providing ample opportunities for learning and development. By prioritizing employee satisfaction, we aim to enhance overall well-being and productivity within our organization.

In 2023, our company will uphold a policy of leading the wool and cashmere industry by offering leading wages and incentives, preserving our esteemed position as market leaders, expanding our global presence, leveraging resources to support our country's economic recovery, and unwaveringly demonstrating our commitment to responsible and sustainable development.

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

Sincerely,

CHIEF EXECUTIVE OFFICER
BAATARSAIKHAN Tsagaach

GOBI IN 2022

OUR ACHIEVEMENTS AND HIGHLIGHTS

"THE GOLD AWARD"

The primary processing facility of Gobi JSC has been granted recognition in the evaluation of the "SFA Clean Fibre Processing Code of Practice" conducted by the Sustainable Fibre Alliance, satisfying the requirement for the "Gold Award" for the second successive year.

By obtaining this award, Gobi JSC affirms its unwavering dedication to animal welfare, support for livelihood of herders, and the production of environmentally friendly, high-quality products.

"SUSTAINABLE DEVELOPMENT COMMITMENT" WAS APPROVED.

During the regular Board meeting of Gobi JSC on April 19, 2022, the company's "Commitment to Sustainable Development" was duly approved, encompassing 14 specific areas within 5 scopes.

HERDERS FROM IKH-UUL SOUM DONATED 90 CAREFULLY SELECTED INSEMINATOR GOATS TO GOBI JSC.

Since 2020, Gobi JSC has been actively involved in the implementation of the "Sustainable Cashmere Tripartite Project" in collaboration with the Agricultural University and local herders.

This important project is taking place in Ikh-Uul Soum in Khuvsgul Province and Jinst Soum in Bayankhongor Province, with a main goal to strengthen the connections between Industry, Science, and Herders. Its overall objective is to improve the quality of cashmere and increase the income of herder families.To mark the significant 90th anniversary of the soum, the dedicated herders of Ikh-Uul Sum generously contributed 90 carefully selected inseminator baby goats to support the project. These goats were presented to Gobi JSC by the Governor of Soum, B. Myanganbayar, on behalf of the herders.

RANKED AMONG THE "TOP-100" ENTERPRISES.

Gobi JSC has attained the 20th rank in the evaluation of "TOP-100" enterprises, which acknowledges their substantial contribution to the economic and social progress of Mongolia, measured by five key parameters. This commendable accomplishment signifies a remarkable ascent of 11 positions compared to the previous year, demonstrating the ongoing success of the company.

"BUSINESS CLINIC" MEETING.

The initial phase of the "Leadership coaching" program "Business Clinic" was successfully conducted at Gobi JSC.
The management team of Gobi JSC actively participated as the pioneering students of the "Business Clinic" course. This course was developed by Coach D.Shinebayar (Shine Dagva), the founder of Coachingolia, in collaboration with Archibald Miller-Bakewell, a consultant of the Coachingolia management team.

Archibald Miller-Bakewell, a former British Army officer who held the rank of general, is a member of Queen Elizabeth II's management team. He has served as a private secretary, adviser, and treasurer to Prince Philip, the Duke of Edinburgh.

THE NEW LOOK OF www.gobicashmere.com
WAS UNVEILED.

In 2019, Gobi JSC introduced the www.gobicashmere.com platform as a strategic initiative to enhance its global sales channels. In 2022, the company collaborated with experienced international market partners to optimize its marketing efforts, resulting in significant improvements to the brand image, photography, and content. The meticulous design and development of the website were entrusted to the renowned American agency, Half Helix, culminating in its successful launch on July 22 with a fresh and modern interface.

This comprehensive update has not only doubled the website's speed but has also streamlined the ordering process, empowering customers to effortlessly purchase their desired products with utmost convenience.

"GOBI KIDS" KINDERGARTEN OPENED ITS DOORS.

On September 5, 2022, the "GOBI KIDS" kindergarten, dedicated to the children of Gobi JSC's employees, was successfully inaugurated to commemorate the company's 41st anniversary. The kindergarten consists of four groups: elementary, middle, senior, and preparatory, accommodating a total of 120 children.

GOBI JSC OBTAINED THE ISO 45001:2018 AND
ISO 14001:2015 CERTIFICATIONS.

International Auditing Organization SGS conducted a certification audit for Gobi JSC, following the implementation of the ISO 45001:2018 Occupational Health and Safety Management System and ISO 14001:2015 Environmental Management System standards. This comprehensive audit took place in April and July 2022, culminating in the receipt of the standard certificates on September 21.

MONGOLIAN PRIME MINISTER VISITED GOBI JSC'S BRANCH STORE IN BERLIN.

During an official visit to Germany, the prime minister of Mongolia, L. Oyun-Erdene visited the Gobi JSC branch store in Berlin.

Gobi JSC opened its branch in Berlin on November 21, 2016, and it has been expanding its business ever since. Prime Minister L. Oyun-Erdene wished us continued success as we work to expand our business not only in the European Union but also on the global market through e-commerce channels and provide everyone with stylish, affordable and quality cashmere products made with Mongolian creaftsmanship.

GOBI JSC WAS AWARDED AS THE BEST ENTERPRISE IN SUPPORTING FAMILY DEVELOPMENT.

During a distinguished event organized by the Office of the Capital Governor and the Department of Family, Children, and Youth Development Gobi JSC was awarded as the best enterprise in supporting family development.

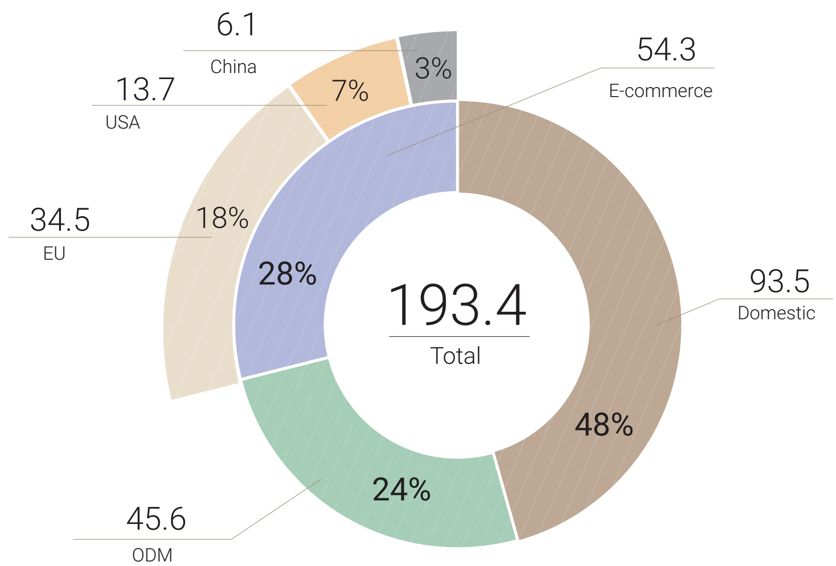
GOBI JSC SIGNED A COLLABORATION AGREEMENT WITH THE FAMOUS ITALIAN DESIGNER GIORGIO SPINA

Gobi JSC signed a collaboration agreement with the famous Italian designer Giorgio Spina. He has collaborated with designers from esteemed Italian and other international fashion establishments, and currently, he is engaged in a partnership with the Mongolian cashmere brand Gobi to manifest his creative vision through the medium of cashmere yarn. Thus, the outcome of our joint efforts is to deliver products crafted with the innovative spirit of the Italian designer, employing industrially processed cashmere thread sourced directly from the hands of Mongolian herders, without the involvement of third parties.

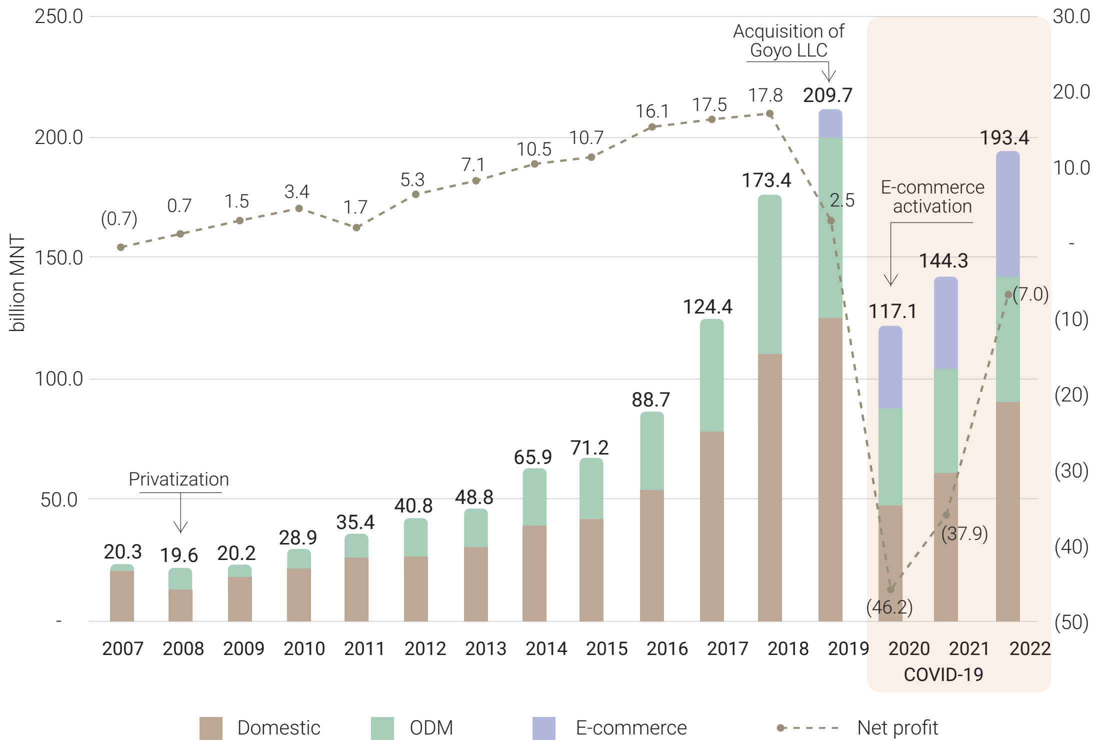
World-famous fashion brands such as Dior, Giorgio Armani, LV, Max Mara, and Chanel create their products using knitting yarn made by the knitwear designer Giorgio.

SALES

SALES REVENUE, BY SEGMENT / billion MNT, %/

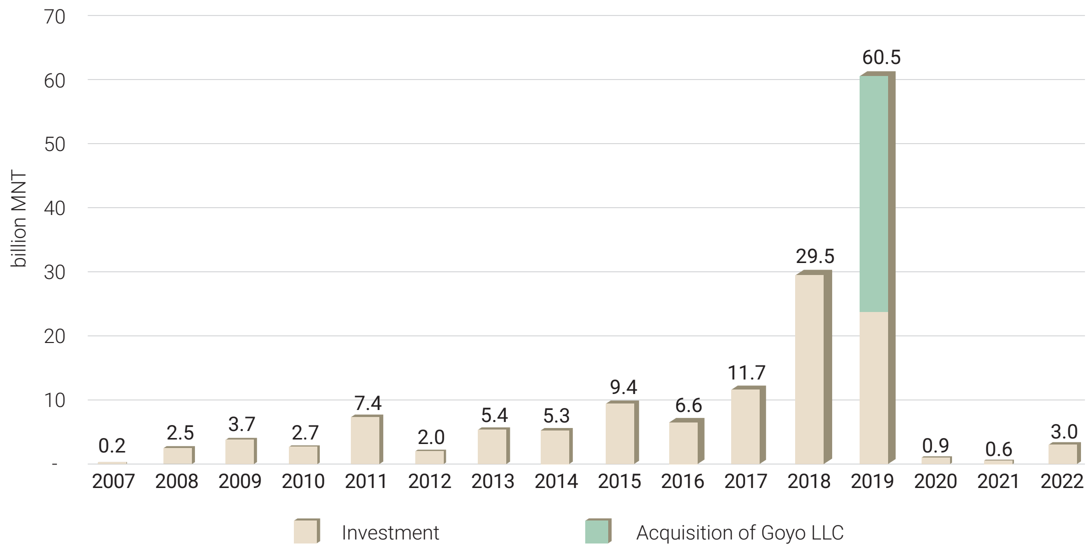


SALES, NET PROFIT /billion MNT/



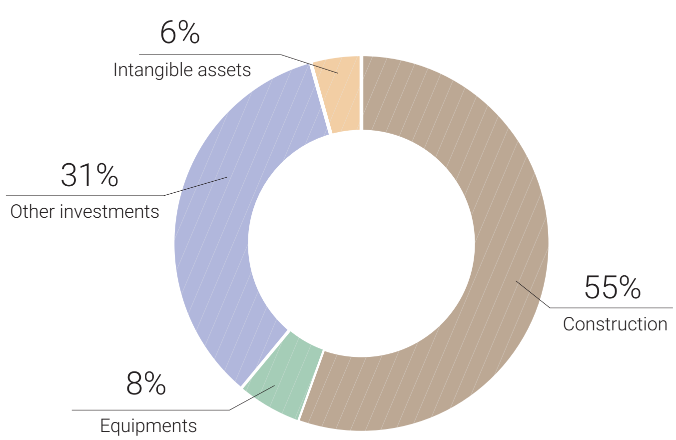
INVESTMENT

INVESTMENTS SINCE 2007
/Total 151.3 billion MNT/



The total investment amount since Gobi JSC privatization in 2007 is 151.3 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.

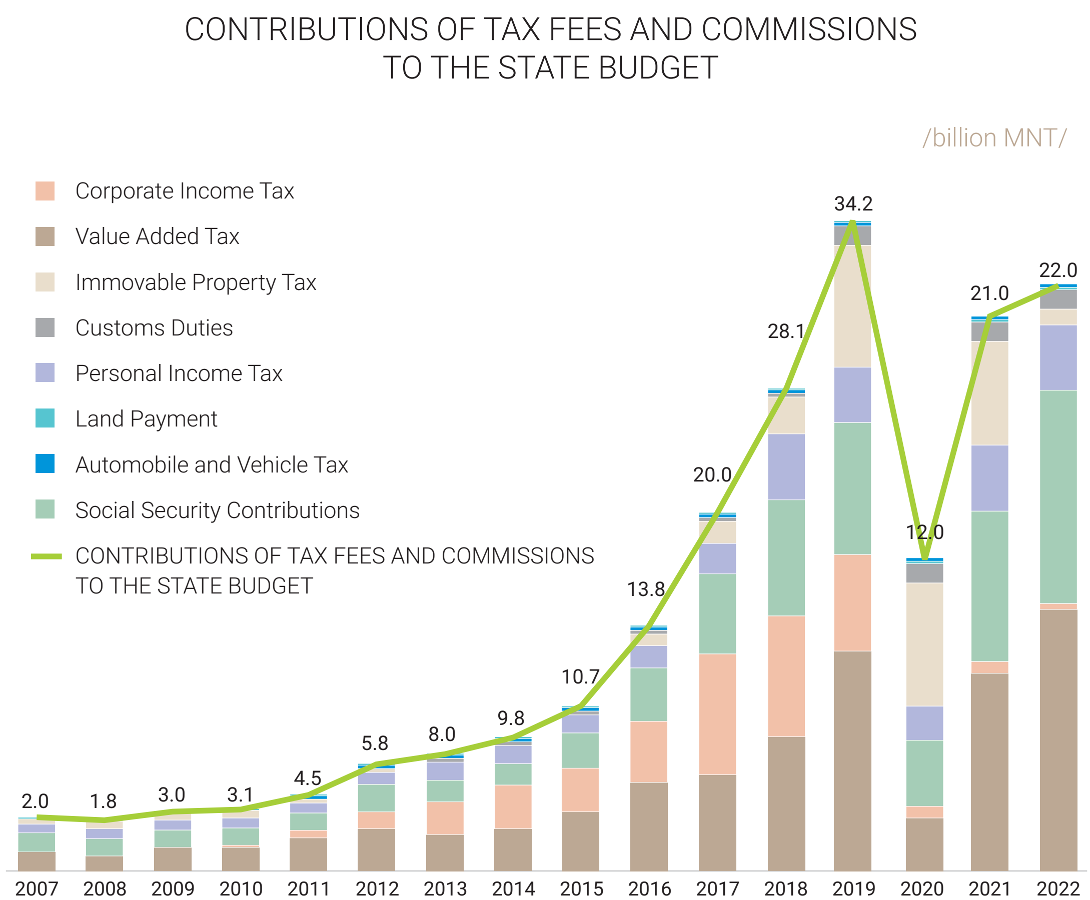
INVESTMENTS OF 2022



In 2022, the investment of 3 billion MNT was allocated as follows: 55% for building construction (1.6 billion MNT), 8% for equipment procurement (230 million MNT), 31% for furnitures and other tangible investments (926 million MNT), and 6% for intangible investments (189 million MNT).

CONTRIBUTIONS OF TAX FEES AND COMMISSIONS TO THE STATE BUDGET

Gobi JSC has contributed a total of 199.9 billion MNT to the Mongolian tax authorities since its privatization in 2007 A comprehensive breakdown of payments by category and date is provided below.



GOBI IN 2022

/Compared to 2021 performance /

↑34%
SALES REVENUE
193.4 billion MNT

↑82%
NET PROFIT (LOSS)
(7.0) billion MNT

↑40%
DOMESTIC SALES
93.5 billion MNT

↑24%
ODM SALES
45.6 billion MNT

↑33%
E-COMMERCE SALES
54.3 billion MNT

↓28%
MARKETING EXPENSE
28.9 billion MNT

↑47%
MANUFACTURED GOODS
847.6 thousand pcs

↑14%
SOLD GOODS
1.0 million pcs

↓24%
MARKET CAPITALIZATION
193.7 billion MNT

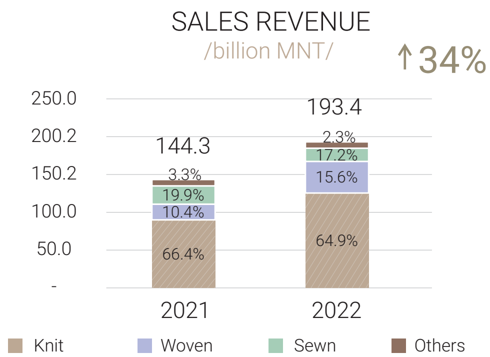
↑5%
TAX AND COMMISISION CONTRIBUTIONS TO THE STATE BUDGET
22.0 billion MNT

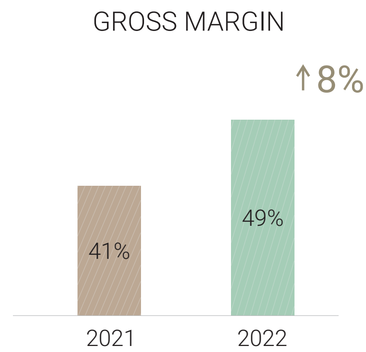
↑367%
INVESTMENTS
3.0 billion MNT

↓5%
LOAN BALANCE
223.4 billion MNT

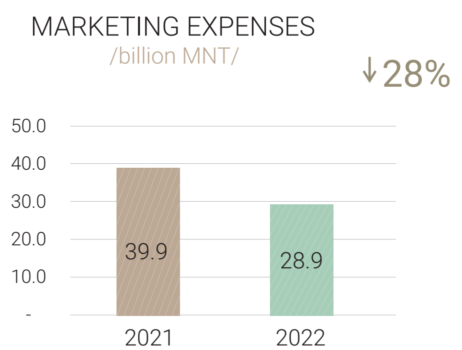
FINANCIAL RESULTS FOR 2022

INDICATORS	Measuring unit	2021 Performance 2021	2022 Performance 2022	Growth/decline Quantity	Percentage
SALES REVENUE	million MNT	144,344	**193,428**	49,083	34%
Domestic	million MNT	66,660	**93,500**	26,841	40%
ODM	million MNT	36,822	**45,586**	8,763	24%
E-Commerce	million MNT	40,862	**54,342**	13,479	33%
Number of goods sold	thousand.pcs	891	**1,012**	121	14%
COST OF GOODS SOLD	million MNT	85,543	**97,767**	12,223	14%
GROSS PROFIT	million MNT	58,801	**95,661**	36,860	63%
Gross margin	percent	41%	**49%**	-	8%
Operating expenses	million MNT	100,189	**100,815**	627	1%
Marketing expense	million MNT	39,884	**28,876**	(11,008)	-28%
OPERATING PROFIT	million MNT	(41,388)	**(5,155)**	36,233	88%
Operating margin	percent	-29%	**-3%**	-	26%
Non-operating expense	million MNT	(3,276)	**4,842**	8,118	248%
Profit before tax	million MNT	(38,112)	**(9,997)**	28,115	74%
NET PROFIT (LOSS)	million MNT	(37,946)	**(6,998)**	30,948	82%
Net margin	percent	-26%	**-4%**	-	22%
Total operating expenses	million MNT	185,732	**198,582**	12,850	7%
PRODUCTION					
Knitwear	thousand.pcs	474	**674**	200	42%
Woven	thousand.pcs	72	**136**	64	88%
Sewn	thousand.pcs	30	**38**	8	25%
Coat	thousand.pcs	15	**16**	2	11%
Blazer	thousand.pcs	4	**6**	2	67%
Yarn	tons	174	**168**	(6)	-3%
TOTAL NUMBER OF EMPLOYEES	person	1,527	**1,548**	21	1%
Profit per employee	thousand.pcs	94,528	**124,953**	30,425	32%
INVESTMENT	million MNT	644	**3,009**	2,365	367%
TOTAL LIABILITIES	million MNT	270,733	**292,284**	21,551	8%
Bank loan	million MNT	234,159	**223,448**	(10,711)	-5%
TOTAL ASSET	million MNT	299,858	**298,112**	(1,746)	-1%
Inventory	million MNT	138,030	**128,809**	(9,222)	-7%

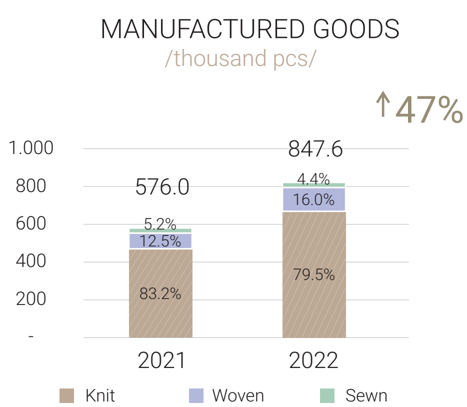


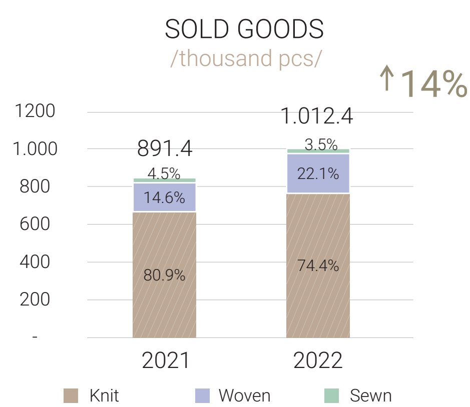


In 2022, there was a 34% rise in sales revenue, amounting to 193.4BMNT, and the gross profit margin showed an improvement of 8 points, reaching 49%.

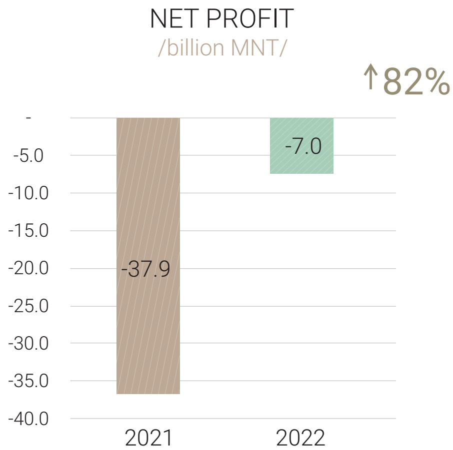


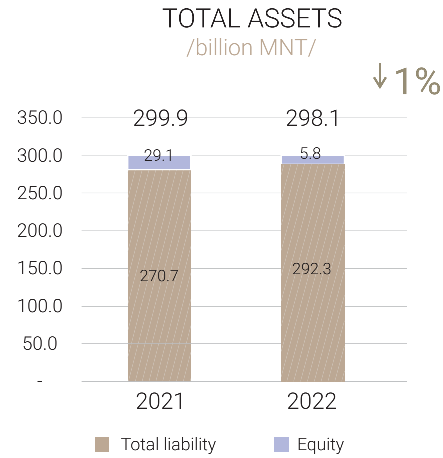
Marketing expenses for e-commerce sales activation has been decreased by 28% compared to the previous year, resulting in a expenditure of 28.9 billion MNT, while the operating profit margin improved by 26 points.



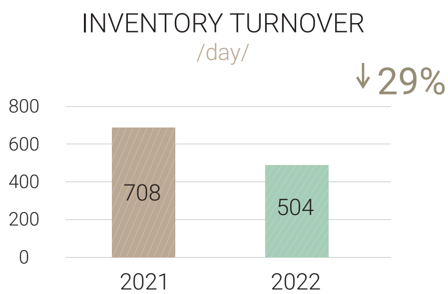


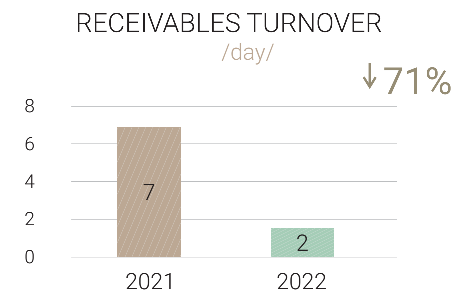
In 2022, there was a 47% increase in the quantity of manufactured goods, paralleled by a corresponding 14% increase in the quantity of sold goods. Knitted products constituted 75-80% of both the manufactured and sold goods. Woven products constituted 16% of the manufactured goods and 22% of the sold goods, showcasing a noteworthy 7-point growth compared to the previous year. Additionally, sewn products accounted for 4.4% of the manufactured goods and 3.5% of the sold goods.





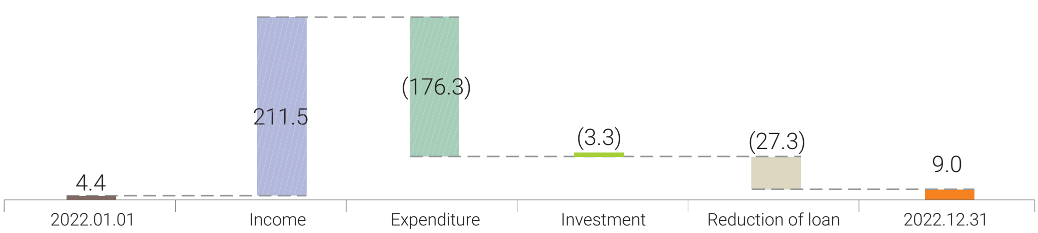
The company recorded a net loss of -7.0BMNT in 2022, with the loss for the reporting period surpassing 30% of the equity amount at the end of the reporting period.





In the year 2022, there was a 29% improvement in inventory holding days, leading to a reduction to 504 days when compared to the previous year. This improvement was accomplished through careful management of raw material purchases and implementation of effective inventory reduction measures. Furthermore, the sales receivables period has experienced a 71% reduction compared to 2021, resulting in a concise period of 2 days.

CASH FLOW



In 2022, operating cash flow was 211.5 billion MNT, while sales revenue was 210.3 billion MNT. Of the total 176.3 billion MNT spent on cash flow, 127.9 billion MNT was paid to operating expenses, 22.0 billion MNT was paid to tax expenses, and 26.4 billion MNT was paid to financing expenses. This shows an improvement in net operating cash flow.

The company also made an investment of 3.3 billion MNT. Within the scope of financial activities, the amount of loans was reduced by 27.3 billion MNT.

MAJOR TRANSACTIONS

No major transactions were conducted during the reporting period.

CONFLICT OF INTEREST TRANSACTIONS

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

At the start of each year, the independent members of the Board of Directors review and approve the list of individuals authorized to engage in transactions with conflicts of interest during that year. At the end of each year, the company's executive management presents a report to the Board of Directors detailing the transactions conducted with parties of conflicts of interest. The Risk Audit Committee, under the Board of Directors, is responsible for overseeing and ensuring the implementation of the resolution.

Further information regarding the related parties and ultimate owners of Gobi JSC can be found on page 90 of this report.

1.2022 Related Party Transactions and Balances /thousand MNT/

The balances of related parties at the conclusion of the reporting period are presented below:/thousand MNT/

1.1 Related parties

Relation	Relation
Shareholders	
Tavan Bogd Trade LLC	Higher-level controlling legal entity
Hide Inter LLC	Shareholder
Other subsidiaries of Tavan Bogd Trade LLC	Subsidiaries of the higher-level controlling legal entity
Other related parties	Entities under the control of the core management team, including subsidiaries, joint ventures, and other related parties.

1.2 Account balances of related parties	2021	**2022**
Accounts Receivable from Related Parties:		
Other Related Parties	30,222	**17,222**
Payables to Related Parties (Short-term):		
Parent Company	185,445	**-**
Related Parties	771	**42,268**
Other Related Parties	109	**5,316**
Payables to Related Parties (Long-term):		
Parent Company	25,622,107	**30,980,732**
Loans from Related Parties:		
Other Related Parties	-	**10,025,578**

Note: The related party account balances are not secured by collateral, and no provision has been made for bad debts.

The long-term payables to related parties are connected to the acquisition of Goyo LLC shares from Tavan Bogd Trade LLC on credit terms. No assets are pledged under the Group Agreement.

1.3 Transactions with Related Parties

The following transactions were made with the parent company of Tavan Bogd Group: /thousand MNT/

	2021	**2022**
Purchases from the Parent Company	1,256,062	**1,356,559**
Interest Payments to the Parent Company	39,134	**7,789**
Sales to the Parent Company	-	**22,090**
Rental Income from the Parent Company	2,032,887	**2,219,369**

Transactions with related parties under shared control:

	2021	**2022**
Related party funding	41,483,084	**105,506,586**
Related party financing payment	41,483,084	**105,506,586**
Related party purchases	454,406	**1,202,395**
Purchases from other related parties	42,641	**28,918**
Sales to related parties	142,468	**134,599**
Rental income from related parties	255,979	**347,349**
Interest expense paid to related parties	272,418	**853,494**

The following transactions were conducted with Khan Bank, a related party of Tavan Bogd Trade LLC.

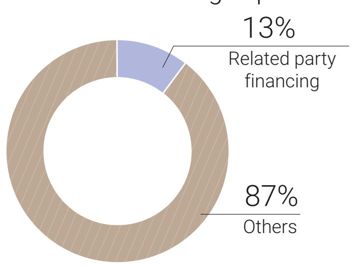
	2021	**2022**
Fundings from Khan Bank	39,237,105	**19,310,000**
Payments from Khan Bank financing	47,237,105	**9,310,000**
Sale to Khan Bank	1,115,012	**22,002**
Purchase from Khan Bank	-	**1,302,303**
Interest paid to Khan Bank	207,648	**194,904**

Бүх холбоотой талын гүйлгээ нь харилцан тохиролцсон нөхцөлөөр хийгдсэн.

2. Comparison of related party transactions in 2022 /thousand MNT/

FINANCING EXPENSES	2021	**2022**
Total financing expenses	25,474,286	**26,000,427**
Financing expenses incurred from related parties	2,305,305	**3,267,767**
Percentage /related party/	9.0%	**13%**

Total financing expenses

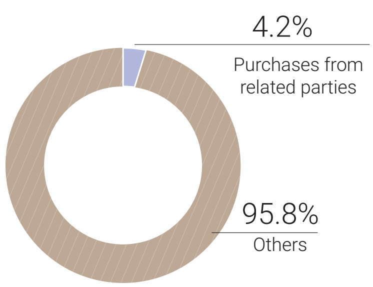


Gobi JSC disbursed 3,267,767 thousand MNT towards financing expenses associated with related parties during the year 2022, representing 13% of the total financing expenses. The average interest rate applicable to these financing expenses is 7.3%.

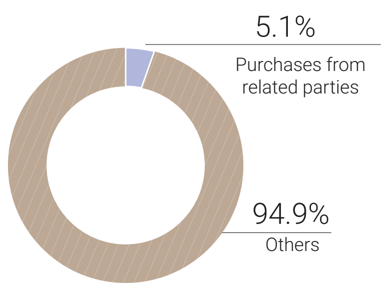
Note: It is important to highlight that related party financing does not necessitate the use of financial ratios or collateral.

PURCHASES	2021	**2022**
Total purchases	8,293,815	**60,911,143**
Overseas purchases	4,957,126	**10,241,714**
Domestic purchases	3,336,689	**50,669,429**
Purchases from related parties	454,406	**2,587,862**
Proportion of related parties in overall purchases	5.5%	**4.2%**
Proportion of related parties in domestic purchases	13.6%	**5.1%**

Total purchases



Domestic purchases



In 2022, Gobi JSC purchased 2,587,862 thousand MNT worth of goods or services from related parties, which accounted for 4.2% of total purchases and 5.1% of domestic purchases.

Note: All related party transactions are subject to price comparison studies in accordance with Gobi JSC's Purchasing Policy, Order Acceptance, Purchase and Delivery Procedures, Work Services Procurement Procedures, and Selection Committee Procedures. These transactions are conducted on a competitive basis and at market prices, and no preferential treatment is given to any related party.

FINANCING INFORMATION

	Name	Currency	Annual interest rate	Expiration Date /year/	Loan Balance 2022.01.01	**Loan Balance 2022.12.31**
1.	DBM	MNT	11.50%(3%)	2022	33,333,333	**33,333,333**
2.	TDB	MNT	8.00%	2022	990,000	**-**
3.	Khas Bank	MNT	13.20%(14.40%)	2023	10,000,000	**9,566,000**
4.	Golomt Bank	USD	7.20%	2023	9,685,920	**-**
5.	DBM	MNT	12.00%	2023	42,900,000	**42,900,000**
6.	European Bank for Reconstruction and Development (Tranche 1A)	USD	6.79%	2024	7,251,491	**6,262,910**
7.	European Bank for Reconstruction and Development (Tranche 1B)	USD	7.49%	2024	10,877,236	**9,394,364**
8.	European Bank for Reconstruction and Development (Tranche 2)	USD	6.93%	2024	12,431,128	**11,273,235**
9.	Golomt Bank	MNT	11.00%	2025	-	**20,000,000**
10.	Khan Bank	MNT	3.00%	2024	-	**10,000,000**
11.	IIB	EUR	4.25%	2027	51,567,840	**29,352,160**
12.	IIB	MNT	5.25%	2027	45,121,860	**51,366,280**
	Total				**224,158,808**	**223,448,282**

Mongol Bank currency rate /MNT

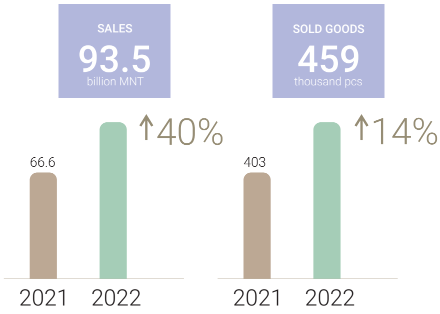
	2022.01.01	2022.12.31
USD	2,848.80	3,444.60
EUR	3,222.99	3,669.02

	Name	Currency	Annual interest rate	Expiration Date /year/	Loan Balance 2022.01.01	**Loan Balance 2022.12.31**
1.	Closed Bond	MNT	9.00%	2022	10,000,000	**-**
	Total				**10,000,000**	**-**

OUR OPERATIONS

DOMESTIC MARKET

In 2022, the GOBI JSC domestic market has made 93.5 billion MNT in sales, an increase of 40% from the previous year. Additionally, a total of 459,000 products were sold, which was a 14% increase compared to the previous year.

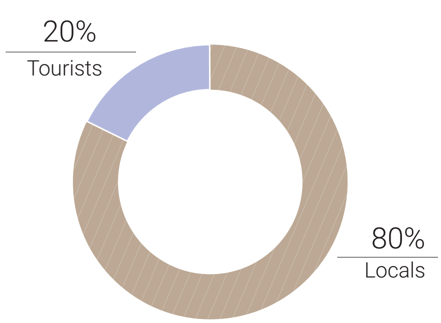


OPENING OF THE TOURIST SEASON

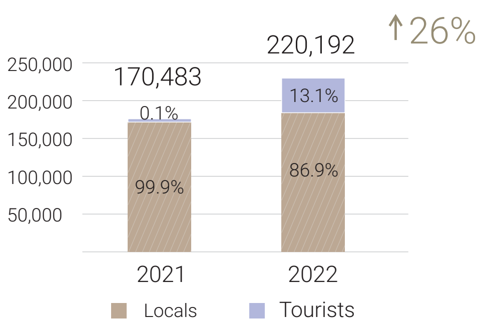
The opening of Mongolia's borders in May 2022 led to a surge in tourism, after two years of disruption. The tourism industry has since recovered, and the number of tourists visiting the country has increased significantly.

In June, GOBI JSC organized the opening of the tourist season. The company worked with tourism associations, travel agencies, and tour guides to stimulate tourist sales. This had a positive impact on domestic sales.

SALES STRUCTURE



TOTAL CUSTOMERS



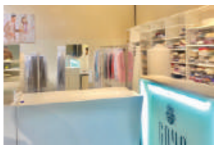
In 2022, tourist sales accounted for 20% of the total domestic sales, a 32-fold increase from the previous year. The total number of customers who made purchases reached 220,000, a 26% increase from the previous year. Of these customers, 13% were tourists.

HIGHLIGHTS

FEBRUARY

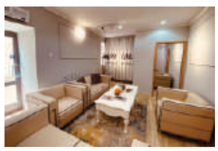

The Factory store has been renovated to provide a more comfortable shopping experience for customers.

MARCH

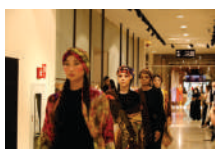
The Dry Cleaning Reception next to the factory was relocated to the old outlet store, and the service area was enlarged and renovated.

MAY

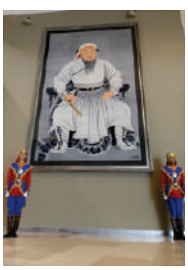
The custom-order shop has been renovated, and the VIP room has been separated to create a comfortable environment for customers.

JULY

The successful launch of the "NAADAM" collection, in collaboration with a state-prize-winning artist S. Sarantsatsralt, received a high rating from users.

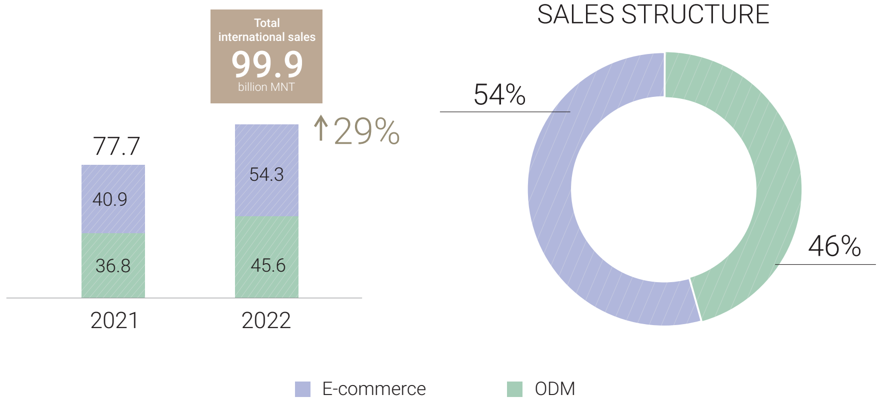
NOVEMBER




The "PORTRAIT OF GENGHIS KHAN" was printed on the world's largest cashmere cloth (5.52x3.52m) and is commemorated in the Genghis Khan Museum.

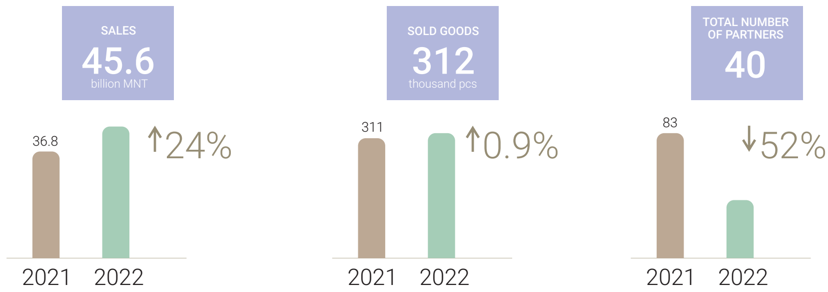
GLOBAL SALES

GOBI JSC sells its products globally through two main channels: direct exports /ODM/ from Mongolia and e-commerce sales through its overseas subsidiaries.

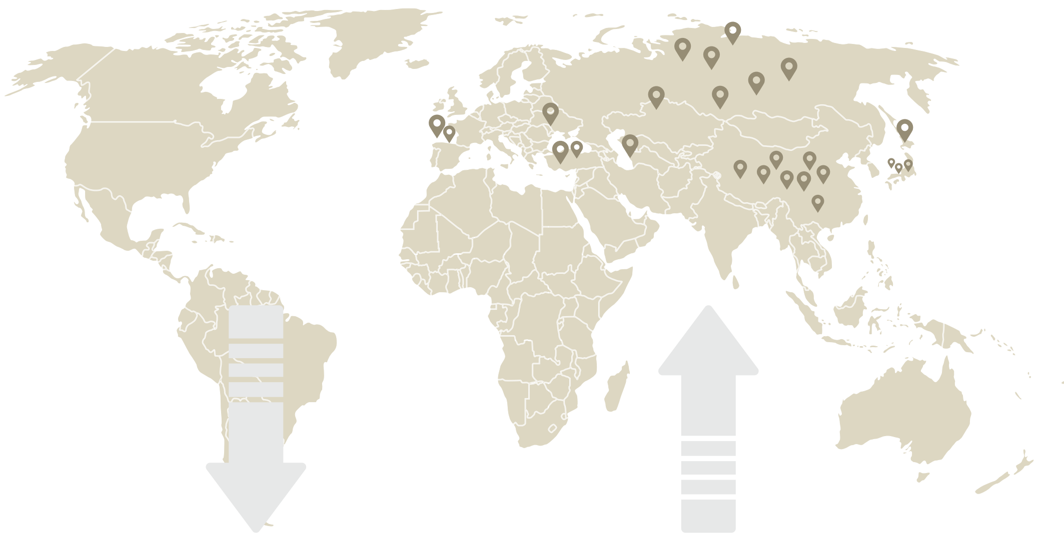


Global sales in 2022 increased by 29% to 99.9 billion MNT. Of this, 46% was from ODM sales and 54% was from e-commerce.

ODM



In 2022, our business implemented a strategy to prioritize strategic partners who place mass orders, resulting in a 52% reduction of the number of ODM partners to 40. This led to an increase in product sales to 312 thousand units for 45.6 billion MNT, which represents a 24% yearly growth compared to the 84 partners supplied in 2021.



TOTAL NUMBER OF PARTNERS

MASS ORDERS

PROFITABLE OPERATION

FACTORY PRODUCTION

As of 2022, there are 22 franchise stores operating in twenty different cities across eight countries

E-COMMERCE

www.gobicashmere.com

GOBI JSC is committed to promoting Mongolian cashmere to a global audience by exploring foreign sales channels, expanding its export volume, and reinventing its cashmere products infused with Mongolian ingenuity. The brand focuses on Europe, the United States of America, and the People's Republic of China, and has been collaborating with leading companies worldwide in 2022 to revamp its online store website design; and activate and improve product photography to boost sales.

Going forward, the company hopes to elevate its position in the market, increase shareholders' wealth, establish long-term business stability, and realize its vision of becoming a wealth-creating entity that future generations of the country can cherish and benefit from.

KEY INDICATORS

MARKET	CTR			CR			CPA		
	2021	2022	Growth /Decline	2021	2022	Growth /Decline	2021	2022	Growth /Decline
EU-UK-US	0.59%	1.36%	131%	0.75%	1.93%	157%	€95.02	€63.48	-36%
CN	1.79%	3.30%	84%	0.67%	0.69%	3%	¥296	¥190	-33%

Abbrevations

EU – European Union
UK – United Kingdom
US – North America
CN – People's Republic of China

Indicators

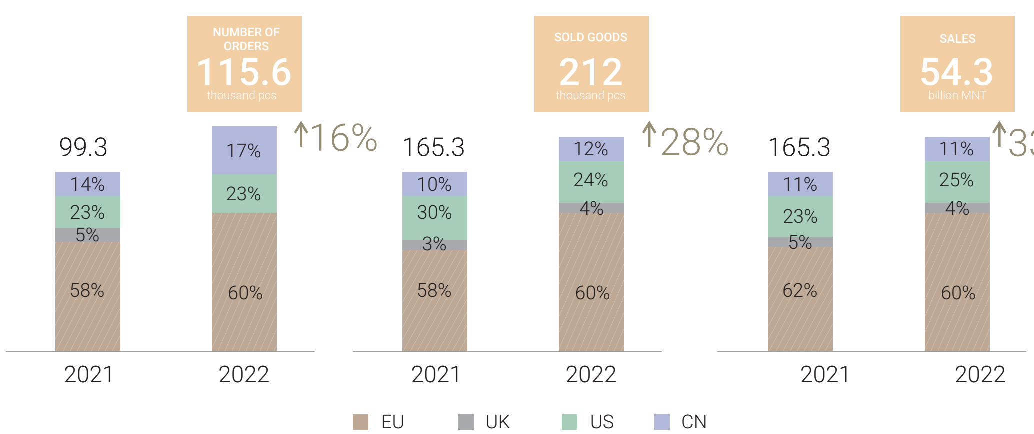
CTR /Click through rate/
- the percentage of clicks or actions received from the total number of ads viewed, making it a key metric for determining the effectiveness and engagement level of advertising campaigns.

CR /Conversion rate/
- the percentage of website visitors who make a purchase, serving as a vital metric to measure the effectiveness and success of online business activities.

CPA /Cost per Acquisition/
- the total marketing expenses incurred to generate one order, serving as a valuable metric for businesses to evaluate the effectiveness of their marketing efforts and optimize their strategies accordingly.

MARKET	Number of orders /pcs/			Sold goods /thousand pcs/			Sales revenue /billion MNT/		
	2021	2022	Growth /Decline %	2021	2022	Growth /Decline %	2021	2022	Growth /Decline %
EU	57,402	64,401	20%	93.8	127.3	36%	25.2	32.6	29%
UK	4,898	4,741	-97%	5.7	7.5	32%	1.9	1.9	1%
US	22,884	26,156	14%	49.5	51.4	4%	9.4	13.7	46%
CN	14,132	20,288	44%	16.3	25.8	58%	4.4	6.1	40%
Нийт	**99,316**	**115,586**	**16%**	**165.3**	**212.0**	**28%**	**40.9**	**54.3**	**33%**

Note: UK web sales were made from the EU market in 2021. With the establishment of a UK subsidiary on November 15, 2022, sales are now made directly from the Uk market.



EUROPEAN UNION, GREAT BRITAIN, NORTH AMERICAN MARKETS

HIGHLIGHTS

Increased the number of our sales channels on Zalando Marketplace.

Started making sales in Austria, France and Sweden on Zalando Marketplace.

Improved the quality of our product photography.

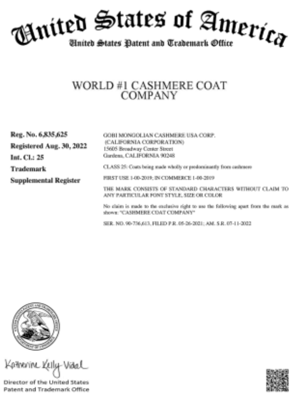
Started a partnership with German-based content agency Studio Cherie to define global art direction and improve the quality of web e-com and editorial photography.
Four collections—ICONIC, WHOLEGARMENT, KIDS, and APRES SKI—were photographed in 2022, and all e-com photos were standardized and updated.

Updated the UI & UX of our international website

The UX&UI of our website www.GOBIcashmere.com has been updated in collaboration with the American agency Half Helix. The site was launched on July 22 with complete new visuals. Since fewer steps are needed for users to make a purchase, the site is simpler and more intuitive. Website speed has doubled to meet international standards.

Verified Instagram account.

Our official Instagram page "GOBIcashmere" has been verified and received the blue verified badge. This is a significant step forward for any brand, as it helps to build trust with customers and makes the brand more recognizable. The blue verified badge is only awarded to official and certified brands and users, so it is a valuable asset for any business.


United States of America
United States Patent and Trademark Office

WORLD #1 CASHMERE COAT COMPANY

Reg. No. 6,835,625
Registered Aug. 30, 2022
Int. Cl.: 25
Trademark
Supplemental Register

GOBI MONGOLIAN CASHMERE USA CORP. (CALIFORNIA CORPORATION)
15605 Broadway Center Street
Gardena, CALIFORNIA 90248

CLASS 25: Coats being made wholly or predominantly from cashmere

FIRST USE 1-00-2019; IN COMMERCE 1-00-2019

THE MARK CONSISTS OF STANDARD CHARACTERS WITHOUT CLAIM TO ANY PARTICULAR FONT STYLE, SIZE OR COLOR

No claim is made to the exclusive right to use the following apart from the mark as shown: "CASHMERE COAT COMPANY"

SER. NO. 90-736,613, FILED P.R. 05-26-2021; AM. S.R. 07-11-2022

Katherine Kelly Vidal
Director of the United States Patent and Trademark Office

Obtained the trademark certification for "The world's No. 1 cashmere coat company".

By satisfying the multi-level trade requirements of the international market, GOBI JSC has obtained the trademark certification "World's No. 1 Cashmere Coat Company".
Receiving this official certification provides an opportunity to promote Mongolian cashmere in the North American market. This trademark was issued by the United States Patent and Trademark Office, a division of the United States Department of Commerce.

Cooperated with SEO (Search Engine Optimization) companies to improve organic search.

Starting from September 2022, we have beeen collaborating with SEO companies to enhance our brand's organic search, with a focus on improving our search engine optimization (SEO) approach.

Opened our pop-up store in New York City.

On September 28, 2022, GOBI Cashmere opened its pop-up store at the SHOWFIELDS mall in New York City's A-zone, with a grand opening ceremony featuring the participation of 5W x SHOWFIELDS companies, and this store, operational for six months until March 2023, is primed to greatly improve brand awareness and provide consumers with a firsthand experience of our products

www.gobicashmere.com/uk

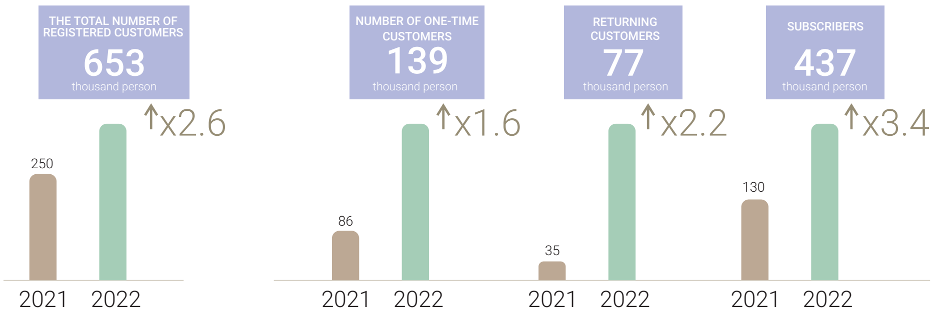
Established a subsidiary company in the UK and launched its website.

GOBI JSC's 2020 European sales saw 11% contribution from the United Kingdom, indicating its potential for growth, but Brexit's impact in 2021 led to a decline in the UK's share to 8%. Consequently, we sought to address this shortfall by expanding its market presence in the UK through the establishment of a subsidiary and the launch of its official website in November 2022.

Successfully introduced 3PL services to the UK market

GOBI JSC collaborated with Tarlu to launch a third-party logistics (3PL) service in UK, and in parallel, a warehouse management system was deployed with the aid of Shopify's expertise, further strengthening the company's logistics capabilities.

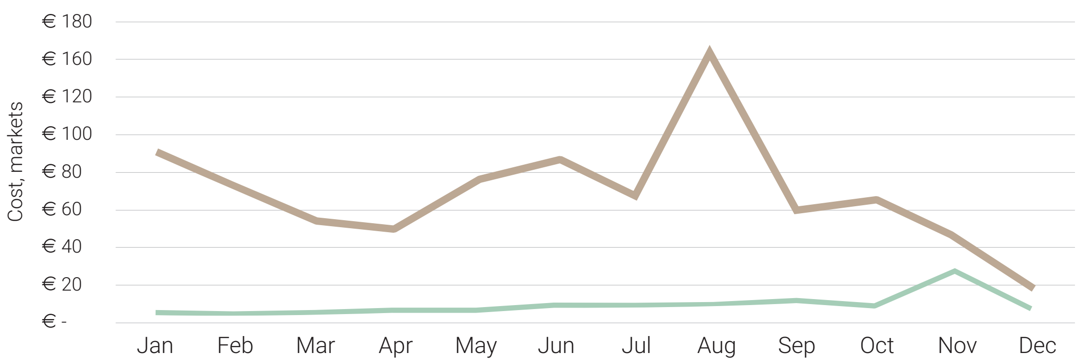
KEY INDICATORS



Тайлбар: x - дахин

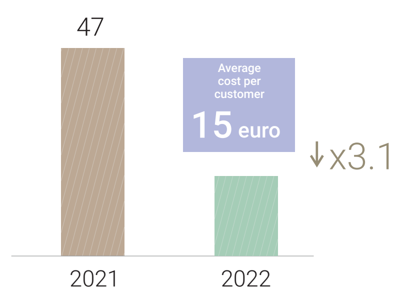
GOBI JSC's online sales channel saw a remarkable surge in registered customer numbers, reaching 653,000 in 2022, denoting a 2.6-fold annual increase.
Further analysis based on user segmentation revealed that the number of one-time buyers grew to 139,000, reflecting a 1.6-fold growth over the prior year, while those who repeated their purchases totalled 77,000, indicating a 2.2-fold YoY hike, and information receivers swelled to 437,000, registering a staggering 3.4-fold YoY increase.

COST PER CUSTOMER /euro/



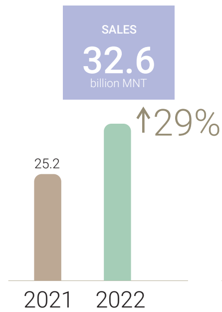
2021	€90	€77	€56	€50	€78	€85	€68	€160	€60	€65	€44	€19
2022	€12	€11	€12	€13	€13	€16	€16	€17	€18	€16	€24	€11

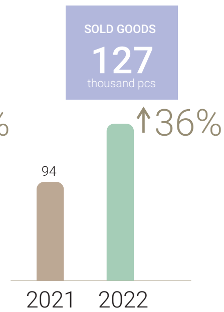
The notable decrease, by a factor of 3.1, in the average cost of acquiring a foreign sales customer to a mere 15 euros in 2022, serves as a critical indicator of more efficient allocation of marketing expenses by GOBI JSC, highlighting the increasing recognition of the GOBI brand in the global market.



EUROPEAN UNION

In 2022, GOBI JSC generated 32.6 billion MNT revenue from sales in the European Union market, marking a remarkable increase of 29%, while a total of 127,000 products were sold during this period, reflecting a 36% year-on-year growth.



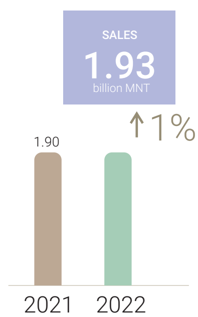


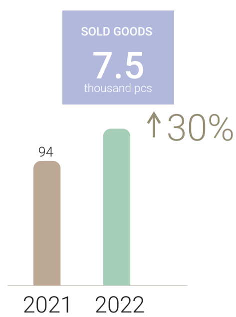
SALES CHANNEL	Sales /million MNT/		Growth /Decline %	Proportion to sales
	2021	2022		
Website	21,346	27,400	28%	84%
Zalando	765	1,089	42%	3%
Branch store	3,072	4,065	32%	13%
Total	**25,182**	**32,554**	**29%**	**100%**

By sales channel, GOBI JSC's 2022 revenue of 27.4 billion MNT from online sales via their website indicates a 28% year-on-year increase, with the largest European marketplace, Zalando, making online sales of 1.1 billion MNT, up by 42% from the previous year, while the branch stores in Germany garnered sales of 4.1 billion MNT, a 32% surge from the preceding year.

UNITED KINGDOM

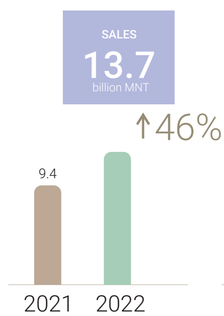
In the UK market, GOBI JSC accomplished 1.93 billion MNT in sales in 2022, with 7,500 products being sold, showing a 30% growth over the previous year, further underscoring the company's intention to augment its sales in the region intending to expand its presence in the market in the near future.

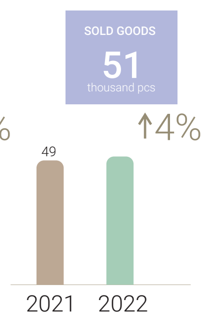




NORTH AMERICAN

GOBI JSC experienced a 46% increase in sales in the North American market in 2022, with sales reaching MNT 13.8 billion and the total number of products sold increasing by 4% to 51,000.





CHINA MARKET

HIGHLIGHTS

Successfully introduced 3PL services.

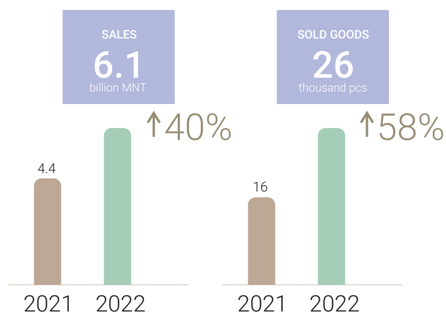
GOBI JSC successfully introduced third-party logistics (3PL) services in its operations in the Chinese market in June 2023. The company signed a warehouse service contract with RUNBOW, a subsidiary of Japan's Sagawa Group in China, and moved its warehouse to Shanghai. This allowed us to provide our customers with faster and more reliable delivery of their orders.

Collaborated with Beidou Photo Studio

GOBI JSC collaborated with Beidou Photo Studio to commission a photo shoot of 632 select products in Guangzhou, China. The photo shoot was designed to align with the unique interests, preferences, and characteristics of GOBI JSC's target audience in China. The impact of these efforts was to enhance product appeal and buyer engagement, increasing the likelihood of successful product-market matching with Chinese consumers.

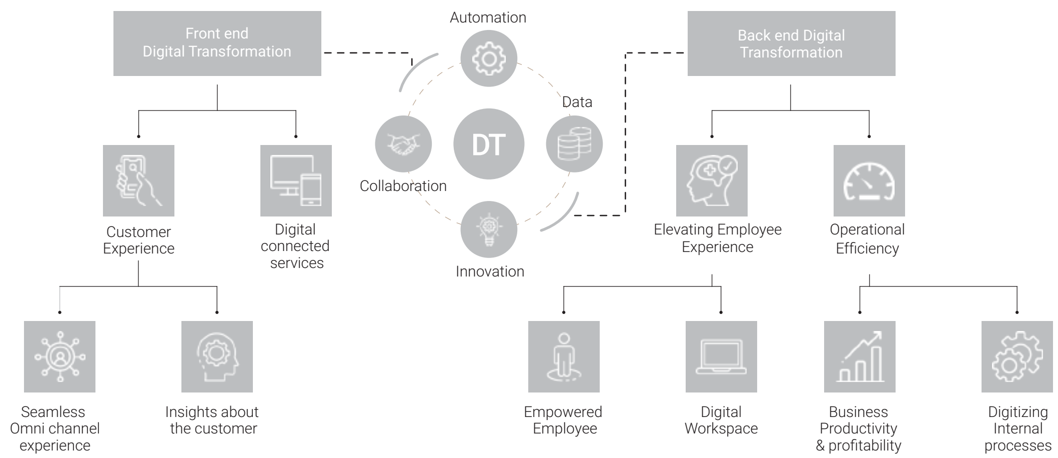
CHINA

In the Chinese market, GOBI JSC has made sales of MNT 6.1 billion in 2022, an increase of 40% from the previous year. A total of 26,000 products were sold, which was a 58% increase from the previous year.



SALES CHANNEL	Sales /million MNT/		Growth/ decline %	Proportion to sales
	2021	2022		
Tmall	2,104	3,421	63%	56%
Taobao	875	557	-36%	9%
Tiktok	123	138	12%	2%
JD	633	583	-10%	9%
Wechat	21	1	-95%	0%
B2B	634	1,447	128%	24%
Total	**4,389**	**6,147**	**40%**	**100%**

SOFTWARE DEVELOPMENT AND DIGITIZATION



In 2020, GOBI JSC established a goal of methodically developing software to revolutionize their operational processes, incorporating electronic transaction options to streamline accessibility for both their external and internal clients, ultimately in the interest of optimizing time management and increasing overall productivity.

In 2022, the Department of Information Technology (IT) successfully executed internal software development and fully activated the Contracts, Payments, and Purchases electronic system. This resulted in significant efficiency for employees, a reduction in paper usage, and an increase in work productivity.

The IT department also implemented an online whistle-blowing system at the organization level. This system guarantees the safety of informants and significantly contributes to creating an ethical and equitable work environment. The system is user-friendly and intuitive, making it easy for employees to report any concerns they may have.

The integration of Microsoft Teams throughout the enterprise enabled GOBI JSC to fortify communication with internal and external users, providing an official and secure platform for the exchange information. The company's complex manufacturing processes underscore the significance of software development and seamless integration with the operational and financial accounting systems to ensure maximum productivity. The initial factory software development undertaken by the software development team in 2022 achieved a completion rate of 91%, a notable win for the company.

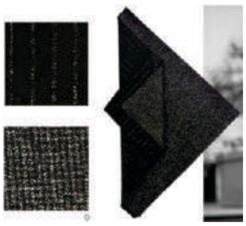
Going forward, GOBI JSC envisions an electronic transition, progressively integrating its production, operations, sustainable development, and internal and external sales activities while introducing the Centric 8 system of Product Lifecycle Management by 2023. Such an initiative presents several opportunities, including the capability to establish' made-by-component' product traceability by embedding a tracking system, increasing the efficiency of product development processes, discovering automated costing, and improving inventory management systems.

Besides, the company plans to conclude ERP research and successfully implement an integrated resource planning system, managing every aspect from financial records to production, sales, purchasing, and warehousing, ultimately supporting the fulfillment of product design to customer delivery—gaining enhanced efficiency and profitability in the process.

NEW TECHNOLOGY AND PRODUCT DEVELOPMENT IMPLEMENTED IN OUR OPERATIONS

DEVELOPMENT OF JACQUARD PATTERNED TEXTILES

In 2022, experimental work was carried out on the development of shawl models with double-derivative knitting, which accurately reproduce the characteristics of patterns and colors. These models were put into production and are scheduled to be released for sale in 2023.
In December 2022, a jacquard blanket was launched under the name "Altai Tavan Bogd." This blanket was an innovative product that satisfied consumers. It was well-received for its high quality, beautiful patterns, and comfortable fabric.



DEVELOPMENT OF FINE FABRICS

Fine fabrics mixed with metal thread and wire mesh were developed in accordance with modern fashion trends, tested, put into production, and delivered to consumers as a final product.

WHOLEGARMENT - 3D KNIT

GOBI JSC developed models for the production of seamless 3D knitted products on the world's first WHOLEGARMENT machine, launched a capsule collection, and began mass production for international markets.

IMPROVEMENT IN YARN QUALITY

Our company's staff visited the Japanese Taiyoseni factory, the world's leading spun yarn manufacturer, to learn from their expertise. They improved the spinning machine configuration and yarn production technology, which resulted in a 63% reduction in yarn breakage, improved productivity, and quality.

CASHMEREBORN

Consumers are increasingly demanding eco-friendly products.

To meet this demand, our GOBI brand started repurposing technological waste into yarn and producing 100% cashmere products that are both stylish and comfortable for the human body.

COLLABORATION WITH WORLD FAMOUS DESIGNERS

MARTIN PARKER

GOBI JSC and English designer Martin Parker collaborated on three successful collections from 2019 to 2022. Parker is a renowned cashmere designer who has worked with some of the leading brands in the industry, such as NEXT, Marks & Spencer, Debenhams, Pure Cashmere and his own brand Cut & Pin. His experience and expertise helped to create stylish and luxurious collections that were well-received by consumers.

The SS 2022 Lounge Lizard collection was photographed in the UK, and the West Coast collection was shot in Los Angeles, USA. The latest FW 22/23 Retro, Rock 'n' Roll, and Iconic collections went on sale in autumn 2022. We also collaborated successfully on the GOBI SS 23 Mexicana collection.

BETTINA LIRSCH

Bettina Lirsch is a design and product development manager with more than 30 years of experience in fashion and sustainable development. She has worked as a consultant and design development manager for well-known companies such as ZEGNA, Marni, and Samsung.

Since August 2022, GOBI JSC has successfully received many pieces of advice from Bettina Lirsch on merchandising, design, and sales. This includes advice on product apparel, merchandising plans, website design, product activation, and brand logo research and development.

GIORGIO SPINA

Giorgio Spina is a famous knitwear and knitwear designer from Italy, the country known as the center of the world fashion world. Major brands such as Dior, Giorgio Armani, LV, Max Mara, Chanel, Brunello Cucinelli, Alexander Wang, Moncler, and Zegna have all presented designs using the knitted yarns he created.

By partnering with Spina, the GOBI brand aims to develop and improve its product designs and produce competitive products in the global market.

COLLECTIONS

In 2022, the design and development department at GOBI JSC strove to leverage contemporary marketing techniques with the objective ro increase sales productivity and overall profitability. Consequently, the team committed to creating new product collections each month, introducing innovative designs to their customers regularly.

As part of this initiative, the department worked towards developing a limited number of capsule collections in addition to the core collection, effectively delivering 5 main collections and 17 additional capsule collections to both domestic and international markets.

MAIN COLLECTIONS

PRINTED SHAWL &
LUNAR NEW YEAR COLLECTION

RED COLLECTION

GOBI S/S 22
LOUNGE LIZARD COLLECTION

COAT COLLECTION

PINK COLLECTION

GOBI S/S 22
WEST COAST COLLECTION

KIDS 2022 COLLECTION

WHITE COLLECTION

NAADAM COLLECTION

CASHMERE & SILK COLLECTION

GOBI F/W 22-23
RETRO COLLECTION

CASHMERE REBORN
COLLECTION

GOBI F/W 22-23
ROCK'N ROLL COLLECTION

TRENCH & COAT COLLECTION

ORGANIC F/W 22-23
APRES SKI COLLECTION

WHOLEGARMENT COLLECTION

BLACK COLLECTION

BURGUNDY COLLECTION

LUREX COLLECTION

X-MAS COLLECTION

ACCESSORIES
CAPSULE COLLECTION

BRANDS

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

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

SUSTAINABLE DEVELOPMENT MANAGEMENT

The era when companies solely pursued profit is now a thing of the past. Today, it is essential to focus on sustainable development, which means working with respect for the environment and the betterment of society.

This commitment to sustainability has become ingrained in the consciousness of most stakeholders in the corporate world. The success of a company is now evaluated based on ethical criteria, including respect for the planet and values that prioritize employees, consumers, and the community.

This commitment to sustainability has become ingrained in the consciousness of most stakeholders in the corporate world. The success of a company is now evaluated based on ethical criteria, including respect for the planet and values that prioritize employees, consumers, and the community.

GOBI Cashmere, as a leading company in the textile sector, took action by establishing a division in November 2021 to consolidate responsible manufacturing practices. This division aims to make informed choices and implement necessary changes that meet the new needs.

Throughout 2022, extensive work was done to determine the policy and commitments that will be upheld over the next three years. The policy was divided into five essential points: sustainability management, environment, society, governance, and operations. One of the key objectives within these points is to disseminate these ideas among our employees, fostering a corporate culture and identity that aligns with our intentions.

However, achieving these commitments and goals cannot be accomplished solely by the leaders and the Sustainability Development Division. It requires the awareness, participation, and contribution of everyone, including employees, partners, and consumers.

TRANSITION PROCESS OF “RESPONSIBLE MANUFACTURING”

November, 2021
Sustainable Development Division

April, 2022
The Board approved the commitment to Sustainable Development

July, 2022
Gobi JSC's Sustainable Development Policy

March, 2023
Gobi JSC's Sustainable Development Report

GOBI JSC - SUSTAINABLE DEVELOPMENT POLICY /2022-2025/

Achieving the goal of sustainable development requires diligent focus on environmental and social values, accompanied by ongoing and responsible monitoring of activities and risks. This approach will ultimately enhance productivity and create values.

We are dedicated to ensuring that our policies are transparent and clear, fostering harmony and collaboration with our supply chain and stakeholders. In today's global market, it is crucial for GOBI to wholeheartedly commit to conscientious and responsible manufacturing practices.

ENVIRONMENT

"The climate crisis, protection of environmental resources, and the balance of nature are the primary challenges facing humanity." This assertion is substantiated by the numerous occurrences of extreme climatic events in recent years, resulting in significant environmental catastrophes. These issues transcend geographical boundaries and affect everyone. Therefore, it is imperative that we collaborate for collective solutions and encourage each individual to contribute to environmental preservation before it becomes too late.

Gobi Cashmere has made a firm commitment to minimize its environmental impact by implementing eco-friendly measures at every stage of production. We continuously update and enhance our criteria to ensure continuous improvement. Additionally, we prioritize raising awareness about the importance of embracing a "green culture" among our employees. To this end, we have aligned our operations with ISO 14001:2015 standards.

In line with our environmental focus, we align ourselves with the United Nations' 17 Sustainable Development Goals. Our efforts contribute to the achievement of goals such as: 7. Affordable and Clean Energy.9. Industry, Innovation, and Infrastructure.12.Responsible Consumption and Production.13. Climate Action.15. Life on Land.

We are dedicated to developing and implementing a comprehensive 3-year plan aimed at driving improvement across key indicators. Our focus centers on the following areas of emphasis.

Energy saving

-20%

Renewable energy

+15%

Reduction of CO_2 emission

-10%

Water saving and reuse

+10%

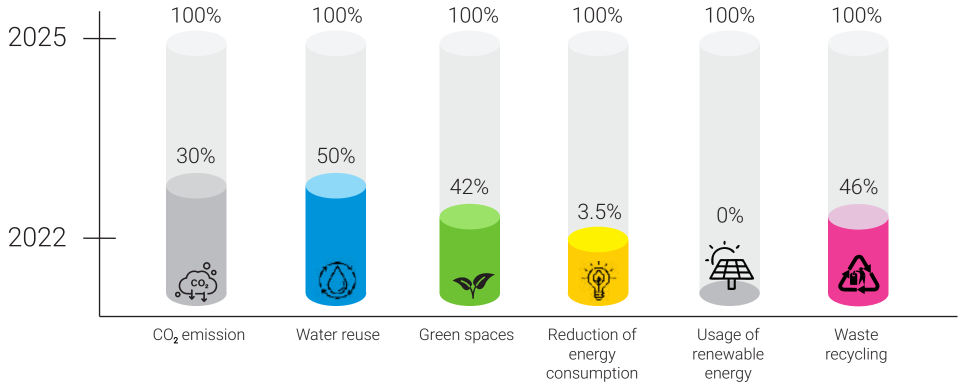
Enhanced recycling and repurposing

+30%

Expansion of responsible collections

+++

ENVIRONMENTAL GOALS- 2025 AND 2022 IMPLEMENTATION



OBJECTIVES OF SUSTAINABLE DEVELOPMENT 2025

- Reduce the CO_2 emission by 20%
- Increase the use of recycled water by 10%
- Expand the green area by 15%
- Reduce energy consumption by 15%
- Increase the usage of renewable energy by 20%
- Recycle 30% of total waste

WATER

The proper use of water, as a valuable natural resource, is a paramount responsibility for producers operating in any given area. It is crucial to address the impact of natural resource utilization and its potential negative effects on the environment. Implementing smart water management practices becomes essential in this regard.

Within the organization, water is used for 3 primary purposes. We diligently monitor water consumption in each workshop through the use of meters to ensure water efficiency. These purposes include:

1. For technological needs
2. For domestic purposes
3. For irrigation and fire extinguishing

Water consumption is sourced from the central line, and we installed first and second-stage water softening filters to reduce water hardness by two-fold.

In 2022, GOBI JSC consumed a total of 125.1 thousand m^3 of water. To meet sewerage standards, we treated 13,000 m^3 of wastewater through our treatment plant, representing 10% of our overall consumption. Noteworthy initiatives undertaken in 2022 include:

- Nine tons of water were saved by installing water-saving faucets.
- We reused 2.9 tons of water from our washing facility's cooling ventilation system saving 2.3% of water
- Implementation of ionizer purifiers on the main fresh water pipeline in the kitchen and food production area, as well as water purifier devices throughout the factory, workshop, and office spaces. Filter replacements were carried out quarterly as per the schedule, and fresh water samples were analyzed three times in total.

Looking ahead, our future plans encompass the introduction of gray water technology, enhancing the capacity of our treatment facilities, upgrading equipment, and empowering our water experts to further optimize our water management practices.

ENERGY, CO_2 EMISSIONS AND RENEWABLE ENERGY

The continuation of our business, which we also consider a duty towards our employees, requires an energy supply that tends to increase along with the growth of our company.
Considering the problems that can be connected to both supply and consumption, it is our duty to evaluate the consumpsion and to have a energy conservation. For the well-being of our customers, 1,500 employees, and stakeholders, we have introduced energy-saving measures.

In line with our commitment to energy conservation, we have implemented various energy-saving measures throughout the year 2022. Some notable initiatives include:

- We reduce 30% of our energy consumption annually with the use of frequency-converting (inverter) devices in machines that use the most energy
- Deployment of smart meters that enable continuous monitoring of electricity consumption without human intervention. This "measure to save" approach has facilitated better energy management.
- Installation of energy-efficient LED lights equipped with motion sensors, optimizing lighting throughout our organization.

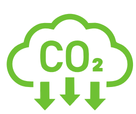
Despite the 47% increase in production volume compared to the previous year, our energy consumption for operations remained nearly the same, experiencing a marginal 1.2% increase. This outcome highlights the effectiveness of our energy conservation efforts.

Energy conservation not only yields operational benefits but also indirectly contributes to the reduction of greenhouse gas emissions. In the reporting year, our energy-saving measures prevented the emission of 189 tons of CO2 by saving 252,000 kWh of energy.

Within our Sustainability Policy, we have set a goal to incorporate green energy or renewable energy sources such as solar panels into our operations. By 2025, we aim to supply 14% of our total annual electricity consumption (based on current infrastructure) through renewable energy. This strategic initiative will significantly reduce our environmental impact, yielding the following benefits:

Save 277,200 tons of water per year

Save energy equivalent to the annual electricity consumption of 300



Reduce CO_2 emissions by 945 tons per year

Reduce the consumption of raw coal by 630,000 kg

WASTE MANAGEMENT

In October 2021, our company underwent an update of the waste management regulations and is diligently implementing them across our operations. These regulations have been developed with the aim of minimizing any negative impacts on both human health and the environment.

The waste generated by GOBI JSC can be categorized into the following types:

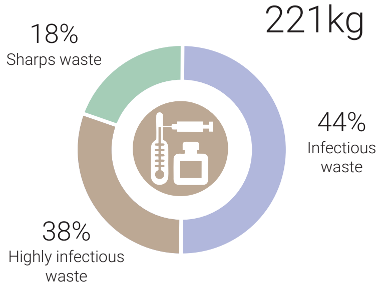
- Hazardous waste
- Technological waste
- Food and office waste
- Post-purchase waste

HAZARDOUS WASTE

GOBI JSC complies with the MNS 6458:2014 chemical poison standard and has a warehouse for[2] housing dangerous chemicals. In 2021, 2.28 liters of chemicals were used per unit of product. To decrease our chemical usage in 2022, we used 0.7 liters less bleach in our dyeing process.

MEDICAL WASTE

221kg



BATTERY

2,802pcs

Prevented the contamination of 2,802 m^3 of soil and 22,146 tons of groundwater.

CHEMICAL WASTE

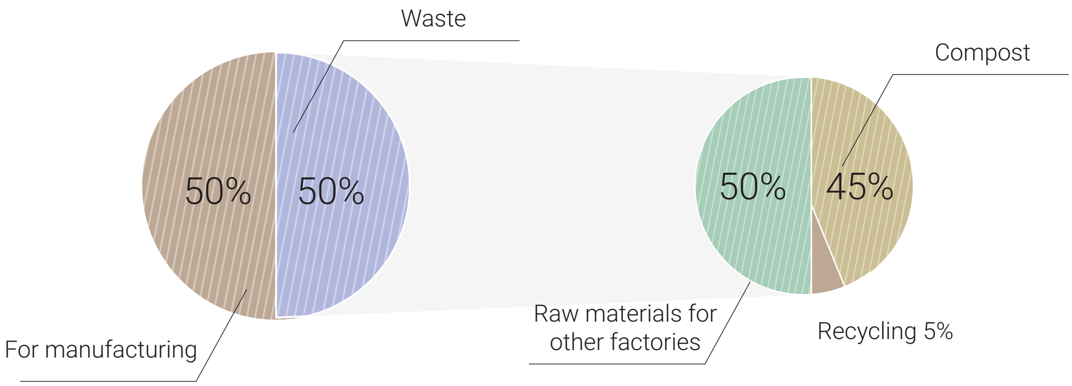
1,760pcs

The plastic containers containing chemical substances were responsibly transferred to a professional institution, minimizing the environmental impact.

In 2022, we allocated additional battery collection boxes at 13 locations within our organization. This initiative aimed to prevent the mixing of hazardous waste with regular waste, thereby protecting the soil, air, and water from pollution. Through collaboration with a professional organization for battery collection, we successfully transferred and disposed of 2,802 batteries, preventing the contamination of 2,802 m^3 of soil and 22,146 tons of groundwater.

TECHNOLOGICAL WASTE

GOBI JSC operates high-production, complex cashmere factories which process raw materials to produce high-end products. Half of these raw materials are withdrawn from production.
Half of these leftover materials are supplied to other factories. The remaining raw materials are used as compost. This demonstrates our capability to recycle and repurpose the waste generated from our raw materials, fostering a fully reusable approach and promoting sustainability.



In 2022, the waste or technological residues from the spinning, knitting, weaving, and sewing stages were reused in the development of various products, such as the CashmeReborn collection, blankets, pillow fillings, animal accessories, and other creative initiatives.

DOMESTIC WASTE

In 2022, 307 tons of domestic waste was generated (paper, plastic, food, hazardous waste) of which 26.3% was sent to contractors and recycled

FOOD WASTE

In 2022, we produced 440 kg or 5.3 tons of food waste each month. We made arrangements to have the food used as animal feed.

POST-PURCHASE WASTE – PACKAGING

After any product reaches the consumer, the packaging becomes a post-purchase waste. To reduce this waste, GOBI JSC uses disposable natural fiber bags, refusing non-disposable
Starting from the 3rd quarter of 2023, we are aiming to offer minimal and environmentally friendly packages for each product and formed a research team to make it work.

RESPONSIBLE COLLECTIONS

Throughout our company's history, we have endeavoured to strike a balance between our nomadic cultural heritage and
the advancements of modern industry. The progress of our products and operations can be encapsulated in the following commitments: to provide our customers with superior quality, competitive pricing, captivating designs, and a strong emphasis on sustainability.

To uphold these promise, we have formulated plans to expand our responsible collections. As a result, our confidence in becoming a fully accountable company continues to strengthen.

ORGANIC COLLECTION

Mongolian cashmere differs from other countries by its unique characteristic of coming in four natural colors. Building upon this feature, we have created the “Organic Collection,” offering garments in these natural colours without the need for dyes or chemicals.

Key Features of the Organic Collection:

- Elimination of chemical dyes, leading to reduced water consumption.
- Contributes to energy conservation and decreased CO_2 emissions.
- Safeguards the natural integrity of the yarn while preserving its superior quality.
- The color palette evokes a comforting sense of warmth.

The benefits of the Organic collection:

-20.3%	-20.6%	-20.7%	-15%
Water Saving	Energy Saving	CO_2 Reduction	Minimized use of chemicals

WHOLEGARMENT OR 3D COLLECTION – SEAMLESS CASHMERE PRODUCTS

Cashmere wholegarment garments differ from other traditional garments because they have no parts and joining seams. They are produced with Shima Seiki machines that perform their tasks according to the programmed design.

Key Features of the 3D Collection:

- Unparalleled comfort: The absence of seams and joints ensures a frictionless experience, making it ideal for individuals with sensitive skin.
- Environment friendly: This collection offers significant ecological advantages by minimizing energy and water consumption, while maximizing productivity during manufacturing hours.
- Reduction in technological waste: The harmonious integration of colors and patterns eliminates any technological waste during the production process.
- Exceptional durability: The meticulously woven fabric boasts uniformity, superior quality, shorter production times, and an extended lifespan.

The benefits of the 3D collection:

-13.2%	-12%	-21.8%
Energy Saving	CO_2 Reduction	Productivity improvement

Traditional manual machine: 1 shirt - 128 mins
Shima Seiki machine: 1 shirt - 100 mins

CASHMEREBORN COLLECTION - ZERO WASTE PRODUCTION:

GOBI JSC has taken significant steps in recent years to promote responsible use of natural resources and conscious production. One notable initiative is the introduction of the "CashmeReborn" collection, which was launched in 2022. This collection embraces a zero waste production approach by repurposing the technological remnants generated during the manufacturing process, leading to the creation of innovative new products.

Key Features of the CashmeReborn Collection:

- Zero waste production ensures both environmental sustainability and economic value.
- Reduces water and energy consumption, as well as CO_2 emissions.
- Offers unique colors and designs, setting the products apart.

The benefits of the CashmeReborn collection:

-13%	-31%	-31%	16%
Water Saving	Energy Saving	CO_2 Reduction	Minimized use of chemicals

SOCIETY

GOBI JSC implements the 17 Sustainable Development Goals of the United Nations within its sustainable development policy. These goals encompass various aspects of social development, including the elimination of poverty, promoting health, ensuring gender equality, creating economic growth and secure jobs, and reducing inequality.

To address the objective of reducing inequality, GOBI JSC focuses on responsible management of human resources internally and social responsibility externally. Specific objectives have been set for each area, guiding our actions and fostering positive change.

By incorporating the 17 Sustainable Development Goals into our practices, GOBI JSC reaffirms its commitment to sustainable development and contributes to global efforts for a more equitable and prosperous future.

RESPONSIBLE HUMAN RESOURCE MANAGEMENT

"Poor management is a cost, whereas well management is an inexhaustible resource."

As a leading entity in the Mongolian wool and cashmere industry and a significant contributor to private sector employment, we have prioritized the stability of our employees' jobs and actively worked towards addressing social challenges. During the reporting year, we created 58 new positions, resulting in a total of 1,548 employees being gainfully employed.

Most of them, given the particularity of the industry, are women. This trend also dominates management and decision-making. Expressing it in numbers we have the following female percentages:es:68% of employees, 56% of the Board of Directors, 63% of senior management, and 80% of middle management (department heads and office heads Our recruitment and selection policy focuses on skills, attitude, and work ethic, without consideration for age, gender, or years of experience.

To be noted, with satisfaction, a considerable number of exponents of the new generations working in the management area. In our policy of selecting and recruiting human capital, great importance is attributed above all to real skills and positive attitudes such as commitment and determination, placing data such as gender, age and previous experience in the background.
In a manner consistent with legal requirements, 1% of employees are workers with various disabilities.
An increase in this percentage is foreseen for the coming years, in parallel with the necessary adjustments to the working environment. As clearly described in our policy, child and forced labour, underpaid work, discrimination and violence of any kind are absolutely prohibited

HUMAN RESOURCES STATISTICAL INFORMATION

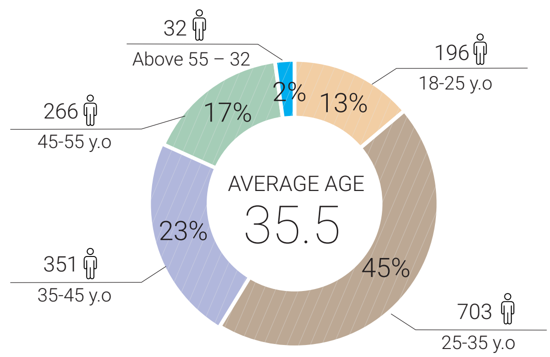
TOTAL NUMBER OF EMPLOYEES - 1,548

ADMINISTRATION	FACTORY	SALES	SUBSIDIARY EMPLOYEES
231	1,032	268	17

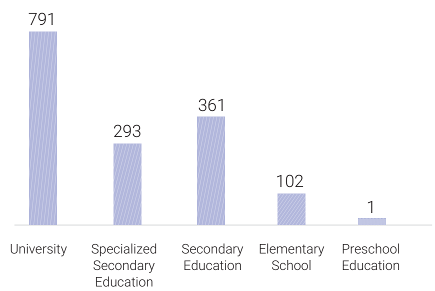
GENDER RATIO

Total employees	32%	68%
Board of Directors	44%	56%
Board of Executives	29%	71%
Management team	37%	63%
Middle management	20%	80%

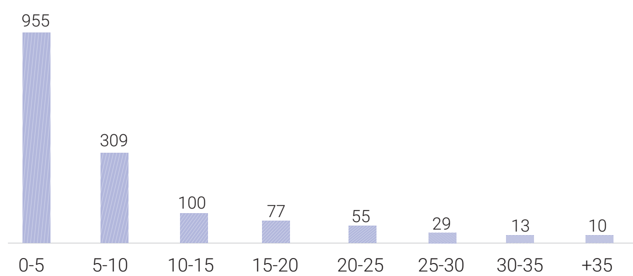
AGE GROUP OF EMPLOYEES



EDUCATIONAL LEVEL OF EMPLOYEES



YEARS OF SERVICE



NUMBER OF EMPLOYEES ON MATERNAL LEAVE	TOTAL NUMBER OF EMPLOYEES WHO RECEIVED DOMESTIC AND INTERNATIONAL TRAINING	NUMBER OF EMPLOYEES RECOGNIZED WITH STATE AWARDS AND COMPANY HONORS
413	8,662	221

Human capital is the most valuable asset of any organization. Our company places special emphasis on the following aspects of human resource management:

- ·Ensuring a healthy and safe working environment for employees.
- ·Offering competitive salaries and bonuses that exceed industry standards.
- ·Fostering employee satisfaction by cultivating a pleasant workplace atmosphere and promoting work-life balance.
- ·Providing opportunities for personal growth and professional development of our employees.

Here are some of the specific initiatives that were undertaken in 2022:

PROVIDE EMPLOYEES WITH A HEALTHY AND SAFE ENVIRONMENT

Ensuring a healthy and safe environment for our employees is of utmost importance to us. We firmly believe in the principle of "Safety First" and strive to maintain a zero-incident record in terms of accidents, near-accidents, occupational diseases, and lost-time injuries.

In line with this objective, our 2022 plan included comprehensive preventive health check-ups for 300 employees who work under challenging conditions. A comprehensive "Health" program will be implemented over a span of 3-5 years, drawing insights from the examination sheets of individual employees and the integrated report and recommendations provided by the Health Organization. This program will serve as the foundation for our annual "Planning to Improve and Sustain Health Quality" initiatives.

In 2022, in alignment with the motto "Stop Work If It Feels Dangerous," the Occupational Safety and Health (OSH) division conducted extensive training and provided instructions to a total of 15,144 individuals/hour, emphasizing the paramount importance of maintaining safety at every stage of operations. As a remarkable achievement, an impressive 2,396,160 individuals/hour successfully carried out their work without incurring any lost-time injuries or accidents.

Furthermore, our organization has established an on-site emergency unit that delivers a comprehensive range of complimentary services, blending both traditional and modern treatment approaches. This dedicated unit grants employees' access to healthcare services, preventative measures, medical checkups, and expedited first aid assistance. By prioritizing the well-being of our workforce, we not only preserve their health but also optimize valuable resources, including time and finances.

Looking towards the future, we are actively preparing to implement the "E-Doctor" program, which will bolster the "Psychological well-being" of our employees.

PROVIDING INDUSTRY-LEADING SALARIES AND INCENTIVES

The Sustainable Development Policy of GOBI JSC encompasses the following provisions pertaining to employee compensation.

- Workplace standards: We create a working environment that adheres to workplace standards and ensures equal opportunities without any form of discrimination in hiring, salary determination, decision-making, training and development, incentives, employment termination, and retirement.
- Meritocracy: We evaluate and reward employees' skills and contributions, upholding the principle of meritocracy. This approach promotes a culture of sustainable work and attracts highly skilled human resources.
- Human resource stability: We aim to reduce employee turnover to 20% and maintain a human resource stability rate of above 80%.

The average salary at GOBI JSC surpasses the national average salary in Mongolia by 12% as of 2021. It is noteworthy that there is no gender disparity in salaries, affirming our commitment to equal recognition of employees' contributions.

Starting in 2023, we aspire to establish ourselves as a leading organization in terms of salary and bonuses. We aim to provide conducive conditions for highly skilled, positive, and accountable professionals to work within their homeland, close to their loved ones. Our approach involves accurately assessing their expertise and accordingly offering competitive remuneration packages.

PLEASANT WORKPLACE ENVIRONMENT AND WORK-LIFE BALANCE

Happy employee → Efficient Employee → Profitable Business

In recent years, alongside the impact of the epidemic, there has been a growing global awareness of sustainable development, prompting extensive discussions on the importance of fostering a favorable work environment. Various aspects such as ethical relationships among colleagues, workplace comfort, and flexible working hours have gained significant attention. For instance, in the United Kingdom of Great Britain, an experiment was conducted involving representative companies from diverse sectors to explore the concept of a 4-day work week. The results of the experiment were remarkable. Not only did the overall job satisfaction of employees noticeably increase, but the participating organizations also managed to sustain their operational productivity. Furthermore, the business performance of nearly all the companies involved demonstrated positive growth. Interestingly, 92% of the surveyed companies decided to extend the trial period, with 30% of them eventually transitioning to a permanent 4-day work week after the trial period concluded.

Last year, our organization carried out the following activities aimed at human resources:

- We introduced a flexible work schedule to allow employees to manage their work-life balance effectively. This initiative provides the advantage of adjusting children's kindergarten and school hours to their working hours, promotes continuous learning and development while working, and reduces the financial and emotional impact of traffic congestion and tardiness.

- We operate two cafeteria locations to provide healthy and nutritious meals to our employees. Our professional chefs collaborated with trainers from the "Chefs' Association" to update the menu, ensuring a selection of dishes rich in vitamins with options for different dietary preferences. This initiative enables employees to save time and money while enjoying quality meals.

- Our company offers a dedicated bus service, utilized by 240 employees daily. This service has resulted in 5,280 individuals per month and a total of 63,360 individuals in Mongolia no longer needing to drive, contributing to a reduction of 114.4 tons of CO_2 emissions in Ulaanbaatar.

- In 2022, our organization's emergency department provided daily check-ups, health assessments, and nursing care to 3,774 employees in duplicate numbers. This department offers a range of services, including The most frequently performed services were injections and traditional treatments.

GOBI JSC operates a dedicated kindergarten for the children of its employees, known as the "GOBI KIDS". The kindergarten offers a comprehensive educational program divided into four groups: elementary, middle, senior, and preparatory. With a capacity to accommodate up to 120 children, the kindergarten operates as a branch of Kindergarten No. 46, endorsed by the State Head, ensuring that it adheres to the highest standards in terms of facilities and services.

Women comprise more than 70% of GOBI JSC's workforce, with over 1,500 employees. Recognizing the significance of providing our female employees with fulfilling and supportive work opportunities, we strive to promote their employment prospects, economic independence, and work-life balance. We consider it crucial to create an environment where they can thrive both personally and professionally.

PROVISION OF OPPORTUNITIES FOR PERSONAL GROWTH AND DEVELOPMENT

GOBI JSC recognizes the importance of fostering a collective understanding of sustainable manufacturing among employees at all levels. The Sustainable Development Department of Govi JSC organized a culture dissemination campaign and training for 9,487.5 people/hour within the framework of the Sustainable Development Program.

Since 2023, the concept of sustainable development has been incorporated into the company's "New Employee Training" to integrate each employee into the company's culture. The Training, Development, and Activation Department, operating under the Human Resources Department, aims to create a satisfying and growing workplace. In the reporting year, the department organized 246 training sessions, with a participation rate of 8,662 employees.

In 2022, GOBI JSC provided long-term and short-term professional training to its outstanding personnel, who have demonstrated exceptional performance in their work. These training programs took place in countries such as Italy, France, Germany, Japan, and Korea, contributing to the development of skilled human resources in Mongolia. Additionally, employees were given the opportunity to participate in online courses offered by renowned international organizations.

In the future, GOBI JSC plans to implement training programs based on company needs and the personal and career planning of employees, with a focus on increasing the availability of training opportunities.

PROMOTING EMPLOYEE WELL-BEING AND LEISURE OPPORTUNITIES

To facilitate employees in making the most of their leisure time, we have established a range of "interest clubs" aimed at promoting camaraderie, personal development, and efficient use of free time. These interest clubs offer various activities to support physical and intellectual growth. Facilities such as a sports hall, yoga room, darts room, and team room have been set up to ensure the smooth functioning of these clubs.

HIKING
Members- 60
Number of activities in 2022 - 30

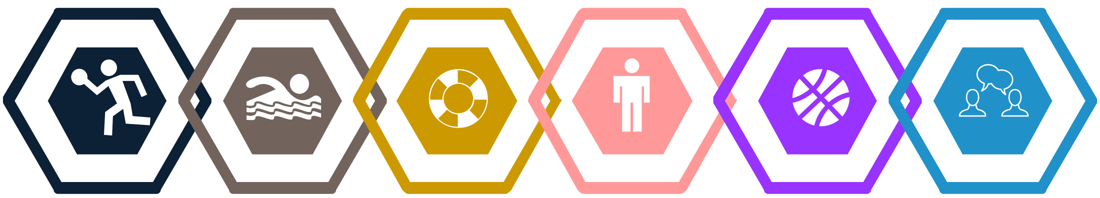
E-SPORT
Members-30
Number of activities in 2022 - 16

SNOWBOARD
Members-30
Number of activities in 2022 - 2

DANCE
Members-59
Number of activities in 2022 - 40

BIKE
Members-22
Number of activities in 2022 - 1

KNUCKLE BONE SHOOTING
Members-30
Number of activities in 2022 - 84



TENNIS
Members-25
Number of activities in 2022 – 56

SWIMMING
Members-20
Number of activities in 2022 – 2

DARTS
Members-20
Number of activities in 2022 – 84

FOOTBALL
Members- 30
Number of activities in 2022 – 1

VOLLEYBALL
Members- 75
Number of activities in 2022 – 30

CHESS
Members- 20
Number of activities in 2022 – 24

SOCIAL RESPONSIBILITY

As an integral part of our sustainable development policy, we are committed to undertaking annual projects and programs that align with our social responsibility. We allocate the required budgets, make strategic investments, and strive to achieve a performance rate of over 90% to actively contribute to the creation of a sustainable society. In this report, we emphasize the noteworthy activities carried out in 2022 within the framework of our commitment.

PARTICIPATORY PROJECT

In line with our commitment to supporting youth employment, we actively participated in various training activities organized by the government of Mongolia. These events took place in Khan-Uul District, Songino Khairkhan District and Tuv Province, where we collaborated with the project participants to prepare young individuals for the workforce. Additionally, we organized three factory tours, providing valuable insights into our operations and offering employment opportunities to deserving candidates.

DONATION TO THE NURSING HOME

The dedicated team at our textile factory utilized innovative leftover technology to create a specialized pillow designed to protect the skin from chafing. This innovative product was generously donated to the “Nursing Home for the Elderly”.

INVOLVEMENT IN THE PARENTS' DAY WITH DISABLED CHILDREN

Our organization actively participated in the gathering arranged by the Department of Labor and Welfare Services of Khan-Uul district, which aimed to bring together parents with disabled children. As a gesture of support and celebration for Children's Day, we presented gifts to the children who attended the event.

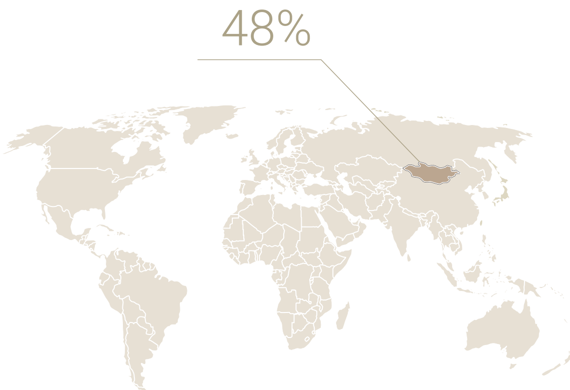
FUTURE WEALTH BUILDER PROGRAM

We implemented the "ETHICAL PERSON OF THE SOCIETY" communication and attitude training program for graduating students from the University of Science and Technology and the Mongolian-Korea Polytechnic College. The program aimed to equip these students with the necessary skills and mindset to excel in their respective fields and contribute to the prosperity of our society.

SHARING EXPERIENCE TRIP

UBTZ JSC, Govi Khangai Furniture LLC, and BOSA Holding LLC participated in an sharing experience trip to learn about the ISO 9001:2015, ISO 45001:2018, and ISO 14001:2015 standards. The companies also got acquainted with the operations of the Sustainable Division and the OSH divisions

CASHMERE INDUSTRY



In 2022, Mongolia witnessed a growth in its goat population, with a total of 27.6 million herds. This represents a 4 percent increase or an additional 1.1 million compared to the previous year.

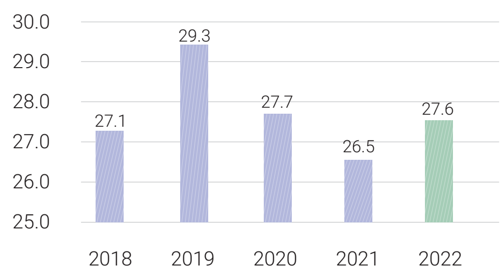
During the same period, Mongolia produced approximately 10.2 thousand tons of raw cashmere, marking a 9 percent increase of 0.8 thousand tons from the previous year. Our country's cashmere production contributes to 44 percent of the world's raw cashmere supply.

In terms of pricing, the average price of cashmere in 2022 was 125,000 MNT, reflecting a 2 percent decrease compared to the previous year.

STATISTICAL ANALYSIS OF THE CASHMERE INDUSTRY IN MONGOLIA OVER THE PAST FIVE YEARS

Goat population of Mongolia

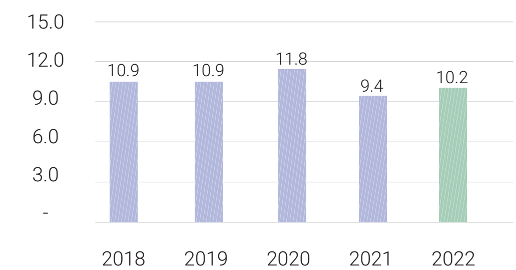
/million/



Source: National Statistics Committee

Raw Cashmere Preparation in Mongolia

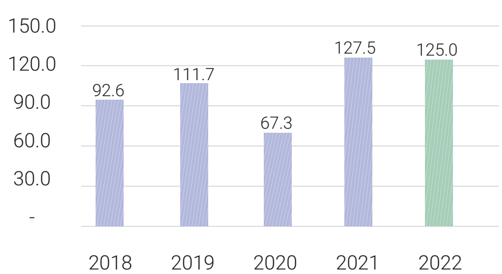
/thousand tons/



Source: National Statistics Committee /by calculation method/

Average price of raw material

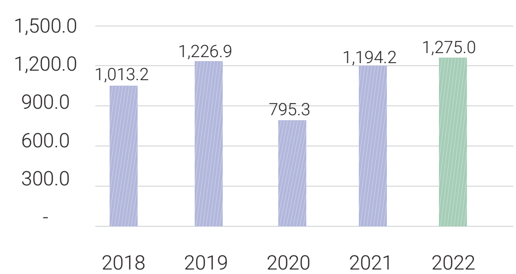
/thousand MNT/



Source: Mongolian Wool and Cashmere Association

Cashmere market

/billion MNT/



/Calculated by the average price of raw cashmere/

SUSTAINABLE CASHMERE – TRIPARTITE PROJECT

According to the latest data, herders constitute 9.6% of Mongolia's population and make up 24.5% of the country's workforce. The majority of herders, approximately 98.1%, are involved in traditional pastoralism practices, while the remaining individuals are engaged in farming or intensive animal husbandry. Notably, the "Herders' Livelihood Survey" reveals that goat cashmere alone contributes to 58% of the total income generated by herder households.

** Page 16 of the "Roadmap for Sustainable Development of Mongolia's Cashmere Industry 2030" report, UB 2022*

In the recent years, As the number of goats has increased significantly in recent years and this phenomenon is linked with environmental desertification, there has been criticism from all parts the world. While at first analysis the simplest solution would be to reduce the number of goats, we cannot overlook the economic consequences for the herder families.

Finding an environmentally friendly solution to this problem is one of the major challenges facing Mongolia. GOBI Cashmere, in its role as a pioneering company, as well as one of the largest companies in the light industry sector, in order to help solve these problems and work alongside the state in its sustainability objectives is implementing the "Sustainable Cashmere, Tripartite Project", as part of its ESG programs. The project is aimed to improve the alignment between Science – Producer – Herders in order to improve the health, care and reproduction of animals on a scientific basis, which leads to cashmere quality improvement and as a result increase herders' income.

As part of this project, the Animal Breeding Technology Operations Unit at the soums provides professional services to ensure the hygiene and welfare of animals and to manage breeding and selection work. Mongolian University of Life Science participates in trainings on proper goat husbandry practices, scientific work and advice on breeding. GOBI JSC, in addition to financing the project, it conducts annual quality analysis of cashmere in its own laboratory and manages the project. In addition to the advantage of improving the composition of the goats and proper goat husbandry practices such as cashmere preparation practice, the herders participating in the project have started directly supplying the cashmere from their goats to the manufacturers at the market price.

In implementation of this project, which is expected to end in 2025, in addition to having created two "core flocks" in the Bayankhongor and Khuvsgul provinces.

Within the project framework, the Livestock Breeding Technology Operation Unit (LBTOU) assumes responsibility for providing professional services to ensure animal hygiene and welfare, as well as managing breeding and reproduction. Additionally, the University of Agriculture delivers training on optimal practices in goat farming, academic research, and scientific aspects of breeding. GOBI JSC, in addition to providing project funding, conducts annual quality analysis of cashmere in its laboratory and oversees project management. Participating herders in the project benefit from a hybrid goat herd structure and adopt appropriate cashmere preparation practices. This enables them to directly supply their goat cashmere to national producers at market prices.

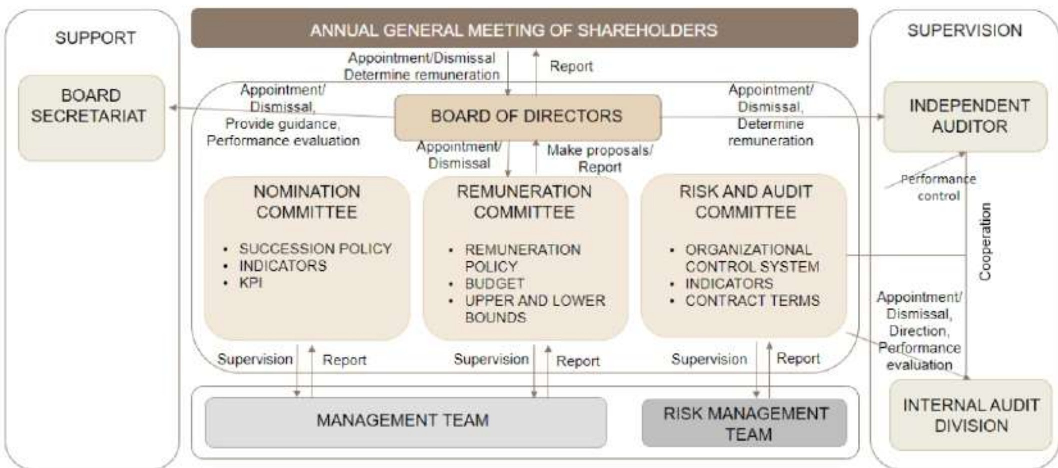
Following the initial two years of the project, analysis samples reveal a 2.6% reduction in the diameter of collected cashmere, a decrease of 36.2% in lichen and waste mixture, and a decrease of 17.2% in coarse hairs. These results signify the positive impact of the project on enhancing cashmere quality.



GOVERNANCE

GOVERNANCE STRUCTURE AND OPERATIONS

GOBI JSC has established a comprehensive corporate governance system that comprises a set of structures and regulations designed to maintain a fair and equitable balance between the interests of shareholders, management, and other stakeholders. Our system is designed to define, implement, and closely monitor the company's objectives and key areas of activity.As a publicly traded joint-stock company, we continually strive to refine our governance system through our attentive study of the Company Law, the Mongolian Corporate Governance Code, and the best practices of international corporate governance. Our commitment to these laws and regulations is unwavering, as we aspire to be a model company and a trailblazer in corporate governance practices throughout the country.



The Board of Directors (BoD) is appointed at the annual general meeting of shareholders. The BoD has a fundamental objective of safeguarding the interests of shareholders and investors, while enhancing the return on capital. The BoD also has the primary responsibility of monitoring the company's executive management activities and providing optimal direction.

The Risk Audit Committee governs the internal audit department, which conducts independent internal control throughout the company.

GOBI JSC established a Board of Directors Office in September 2021 to enhance the efficiency of the Board, improve internal organization and governance, and serve the interests of shareholders. The Office is composed of two members: the Board Secretary and a Board Specialist. The Office is responsible for preparing and coordinating Board meetings and committees, ensuring transparency in the dissemination of information to the public, developing governance policies and monitoring their implementation, addressing corporate governance matters, receiving and responding to shareholders' inquiries and feedback, and serving as the primary source for providing company updates and news.

In 2022, we have undertaken a number of activities to strengthen and enhance the good governance of our company. The following initiatives were pursued within this framework:

THE BOARD OF DIRECTORS HAS APPROVED THE FOLLOWING POLICIES AND PROCEDURES WITH THE OBJECTIVE OF ENHANCING THE COMPOSITION OF POLICY DOCUMENTS:

REVISED

- Code of Ethics
- Operating procedures of the Board of Directors
- Information disclosure procedures for the public
- Procedure of Board of Directors Award

NEWLY APPROVED

- Commitment to sustainable development
- Board office procedures
- Governance policies
- Program for implementing the corporate governance code
- Whistleblowing System Operating Procedures
- Memorandum of Understanding and Non-Disclosure Agreement template for Board members

DRAFTED

- Succession policy for Executive Board members
- Updated procedures for selecting and nominating Board members
- Prepared the draft to revise the risk management policy and planning to approve it on the first Board meeting of 2023.

TO IMPROVE OUR CORPORATE GOVERNANCE, WE HAVE CARRIED OUT THE FOLLOWING ACTIVITIES:

- Preparing the ESG evaluation report for the first time and conducting two assessments of our implementation of the corporate governance code. We communicated the results of these assessments to the public through the Mongolian Stock Exchange and our company's website.
- Including our dividend policy in the annual report to ensure transparency and clarity for our shareholders.
- Requiring the Risk and Audit Committee to present information on transactions with related parties at the shareholders' meeting.
- Implementing a whistleblowing system to encourage and protect employees who report any unscrupulous behavior.
- Developing a board member's manual to ensure continuity and provide guidance for the board's activities.
- Revising and communicating governance policies and regulations to the board members and management team.

GOVERNANCE POLICY

In November 2022, the Board of Directors of GOBI JSC approved the company's "Governance Policy".

Our commitment to designing a fair and ethical governance system ensures that we maintain a balance of stakeholder interests, create an environment of trust, transparency, and accountability, and prioritize long-term investment, financial stability, and business continuity.

Within this policy, we have outlined nine essential elements and proposed goals and objectives to guide our governance practices.

OUR GOVERNANCE GOALS AND OBJECTIVES:

1. Ensure the interests of stakeholders
2. Form an appropriate structure of the board of directors
3. Ensure transparency of reporting information
4. Conduct fair and ethical activities
5. Form a control system
6. Form a company culture
7. Form an appropriate system of salary incentives
8. Develop sustainable development activities
9. Improve corporate governance

OUR PRINCIPLES OF GOVERNANCE:

- Ensure transparency
- Ensure balance of interests of all stakeholders
- Comply with laws and regulations
- Be fair and ethical
- Form a control and accountability system
- Form an organizational culture
- Implement the concept of sustainable development
- Continuous improvement

In 2022, GOBI JSC made significant progress in responsible governance. Our efforts resulted in an improvement in ethics and compliance with human rights within the company.

STAKEHOLDER COLLABORATION

GOBI JSC has incorporated goals and principles into its governance policy to ensure a balance of stakeholder interests in all business activities. As part of this framework, we have identified the company's stakeholders in 2022 and determined their expectations, interests, and levels of influence on the organization's operations. By involving stakeholders in our decision-making processes, we foster a culture of transparency and accountability that promotes long-term value creation and benefits all parties involved.

Throughout the preceding fiscal year, our primary focus was to promptly deliver accurate information to investors, shareholders, and the broader public. This endeavor necessitated a revision of the "Procedure of Information to the Public." We diligently adhered to the prescribed guidelines and successfully enriched the content of the company's financial results, operational news, and the official website (info.GOBI.mn), ensuring consistent dissemination of updates.

Moreover, our unwavering dedication to stakeholder engagement and enhancing the decision-making process led to the recent endorsement of the "Procedure for receiving and resolving complaints and grievances from stakeholders." This comprehensive framework now encompasses expanded channels for registering complaints, enabling us to promptly address received grievances. We value stakeholder feedback and actively integrate it into our operations, fostering a culture of collaboration and efficacy.

In our pursuit of a healthy and safe work environment, we prioritize responsible management of our human resources, with a strong emphasis on safeguarding our employees' interests. Our initiatives encompass various aspects, including providing competitive wages and incentives, cultivating a conducive workplace atmosphere, promoting work-life balance, enhancing employee satisfaction, fostering personal growth and development, and augmenting professional competencies. Notably, we have achieved significant milestones in the successful execution of the Sustainable Cashmere tripartite project, which benefits both society and herders.

Looking ahead, our board of directors is fully committed to formulating and endorsing a comprehensive policy that facilitates effective communication and cooperation with stakeholders. Within the framework of this policy, we aim to thoroughly understand the interests and needs of all stakeholders and undertake tasks that maintain a harmonious equilibrium among them.

ASSESSMENT OF IMPLEMENTATION OF THE CORPORATE GOVERNANCE CODE

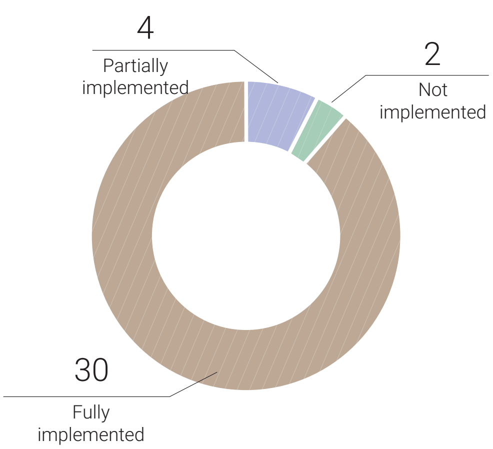
Our company has successfully concluded governance self-assessments from 2017 to 2022. This year's assessment was conducted using the Company Self-Assessment Questionnaire for Joint Stock Companies, which was approved by the Mongolian Stock Exchange.

In June 2022, the Mongolian Stock Exchange developed an evaluation methodology in light of the revision to the Corporate Governance Code made by the Financial Regulatory Commission in March.

The board office completed the evaluation of GOBI JSC's adherence to the Corporate Governance Code using this methodology. The results were presented to the board members, who reviewed them thoroughly. The chairwoman of the board then approved the results, taking into account the suggestions provided. Furthermore, our company's self-assessment results underwent an independent double-check by the Mongolian Stock Exchange. These results were carefully examined and verified using supporting documentation.

TOTAL RESULTS OF ASSESSMENT OF GOBI JSC

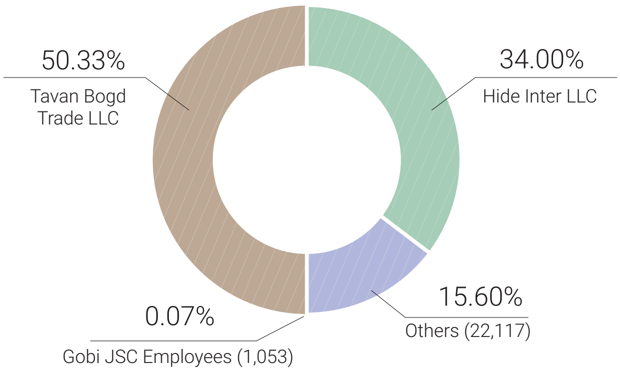
№	Chapter	Total score	Assessment score	Reviewed score	Percentage
1	Board structure and composition	12	10	10	83.3%
2	Board committees and their responsibilities	10	9	9	90.0%
3	Reporting and data transparency	6	6	6	100.0%
4	Audit and control system	6	6	6	100.0%
5	Risk management	8	8	8	100.0%
6	Remuneration of authorized officials	6	4	4	66.7%
7	Interests of stakeholders	8	6	6	75.0%
8	Company's organization culture	6	6	6	100.0%
9	Rights of shareholders	10	9	9	90.0%
		72	**64**	**64**	**88.9%**



Based on the consolidated results, GOBI JSC has achieved a medium governance rating of 88.9% in terms of the implementation of the "Corporate Governance Code." This rating provides valuable insights into areas that require our attention and improvement. In light of these evaluation findings, the board of directors is actively devising a comprehensive plan to enhance our governance practices continually.

For a comprehensive understanding of the governance evaluation, we invite you to access the detailed governance evaluation report, which is available on both the Mongolian Stock Exchange (MSE) website and our company's official website.

SHAREHOLDERS



TOTAL NUMBER OF ISSUED SHARES
780,112,500

TOTAL NUMBER OF SHAREHOLDERS
23,172
/2022.12.31/

SIGNIFICANT SHAREHOLDERS

NAME	Number of shares	Percentage
Tavan Bogd Trade LLC	392,640,072	50.33%
Hide Inter LLC	265,238,300	34.00%

Note: A "significant shareholder" is an individual or legal entity that owns 5% or more of a company's total voting shares and duly exercises their voting rights in accordance with the law and contractual obligations, either independently or in conjunction with related parties.

HIDE INTER LLC is a Japanese investment company.

TAVAN BOGD TRADE LLC is the holding company of the Tavan Bogd Group of companies. Founded in 1997, Tavan Bogd Trade LLC is a parent entity that is in charge of strategic direction, new business development, support, and investment in the operations of its subsidiary companies. Tavan Bogd Group, a leading Mongolian company, has successfully led a total of more than 12,000 employees and 23 subsidiaries, including 4 investment companies.

EMPLOYEE STOCK OWNERSHIP PROGRAM

GOBI JSC introduced its Employee Stock Ownership Program (ESOP) in June 2021. Under this program, eligible employees who were employed by the company as of July 20, 2021, were awarded company shares. The primary objectives of the ESOP are to foster employee engagement, provide them with a stake in the company's success, and promote job satisfaction and stability.

As of December 31, 2022, a total of 1,053 employees hold 574,100 shares, representing 0.07% of the company's overall shares. The company's board of directors and management are actively developing a comprehensive plan to continue implementing the ESOP on a regular basis in the future. Employee Stock Ownership Program (ESOP)

INFORMATION OF RELATED PARTIES

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

INFORMATION OF ULTIMATE BENEFICIAL OWNER

No.	Full Name	Citizenship	Ownership percentage	
			Individual	Related parties
1	Tsagaach BAATARSAIKHAN	Mongolia	0.006%	Tavan Bogd Trade LLC 50.33% Tavan Bogd LLC 0.40%
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. During these meetings, company management engages in discussions and makes decisions on critical matters concerning the company's organization and operations, in alignment with the parameters specified in Article 62.1 of the Company Law and as determined by the board of directors or the company's regulations, to be addressed and resolved at the Annual General Meeting.

2022 ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders for the year 2022 was held at the Mirage restaurant adjacent to the company's flagship store on April 23, 2022, at 11:00 a.m.

MEETING ATTENDANCE

There were 1,046 shareholders who participated in the meeting and cast a total of 284,538,863 votes through advance voting. Additionally, 95 shareholders attended the meeting in person and cast 405,499,195 votes. Altogether, there were 1,141 shareholders present and they cast a total of 690,038,058 votes. The attendance rate for the meeting was 88.45%.

ISSUES PRESENTED AT THE MEETING:

1. The operational and financial results of GOBI JSC for the year 2021
2. The board of directors deliberated on the company's operational and financial statements for the year 2021.
3. The resolution of the board of directors to withhold the distribution of dividends based on the financial results of 2021.
4. The board of directors' 2021 work report.

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 2021.

EXPENSES OF THE ANNUAL GENERAL MEETING

/thousand MNT/

TYPE OF THE EXPENSE	2021	2022	Growth/decline %
Expenses of the annual general meeting	16,478	21,825	32.4%

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD

INDEPENDENT MEMBERS OF THE BOARD

Damba
GERELMAA

Chairwoman of the Board, Chair of the Remuneration Committee, Member of the Nomination Committee

D. Gerelmaa was first elected as an independent member of the Board of Directors of GOBI JSC at the Annual General Meeting in April 2013. Since October 2016, she has held various leadership roles within the company, including being a member of the Audit Committee, Chair of the Nomination Committee, and Chair of the Remuneration Committee. Currently, she serves as the Chairperson, Chair of the Remuneration Committee, and a member of the Nomination Committee.

D. Gerelmaa has an impressive educational background. She obtained a bachelor's degree in Engineering and Economics from the Institute of Telecommunications in Moscow, Soviet Union. Additionally, she earned a doctorate in Management from the "Academy of Management," an implementing agency of the Government of Mongolia.

Throughout her career, D. Gerelmaa has held various professional positions. She has worked as an economist at the Radio and Television Technical Center, a teacher, and head of the Department of Business Management at the College of Economic Development. She has also served as an accountant at the Permanent Mission of Mongolia to the United Nations and the Embassy of the Swiss Confederation. Since 2006, she has held the position of Deputy in charge of Education and Research at UFE. Furthermore, she has taken on roles such as director, deputy director of training, and professor at the Department of Business Administration. Since 2022, she has been working as a professor at the Graduate School of UFE.

Dambiijav
KHURELBAATAR

Chair of the Nomination Committee

D. Khurelbaatar was first elected as an independent member of the board of GOBI JSC at the Annual General Meeting in April 2008. After serving as the Chairman of the Remuneration Committee, he resigned from the board of directors in 2016. Currently, he has been temporarily appointed as an independent member of the Board of Directors from September 2022 until the 2023 Annual General Meeting. Currently, he also holds the position of Chairman of the Nomination Committee.

D. Khurelbaatar obtained a bachelor's degree in accounting from the Technical College of Commerce. Furthermore, he pursued a master's degree in economics from the Institute of People's Economy.

He worked as a State Inspector Auditor at the State Bank and served as the Director of the Customer Service Department at the Trade and Development Bank. Additionally, he held the position of Deputy Director at the Mongolian Post Bank. From 2007, he took on the role of Deputy CEO of the Trade and Development Bank. He also served as the Head of the office of the Board of Directors of TDB before retiring in 2022.

Myagmar
BAYAR

Chair of the Risk and Audit Committee

M. Bayar was first elected as an independent member of the Board of Directors at the Annual General Meeting in September 2016. She has served as a member and Chair of the Nomination Committee, and since September 2022, she has assumed the role of Chair of the Risk and Audit Committee.

M. Bayar holds a bachelor's and master's degree in Garment Industry Technologist from the Technical University of Mongolia. She also obtained a Doctor of Engineering Science degree from ENSISA in France and a post-doctorate degree in Digital Fashion from Konkuk University in South Korea.

Since 1997, she has held various teaching positions at the Department of Sewing, Department of Textiles, and Department of Textile Studies. Over the years, she has progressed from Senior Lecturer to Associate Professor, Leading Professor, and Associate Professor of Textile Studies. In addition, she has served as the Director of the Center for Textile Studies and the Department of Light Manufacturing. Since 2021, she has been working as an associate professor specializing in technological engineering.

Altangerel
JARGALMAA

Member of the Risk and Audit Committee

A. Jargalmaa was first appointed as an independent member of the Board of Directors in November, 2019. She currently serves as a member of the Risk and Audit Committee

She holds a Bachelor's degree in Accounting from Oxford Brookes University. She is also an International Certified Public Accountant (ACCA). Additionally, she has earned an MBA in Global Management from Handong Global University and a Master's degree in Business Management from Finance and Economy University.

She has also worked as a teacher at UFE, an accountant at Itezmon LLC, a consultant at Iarudi Consulting LLC, an accountant at Dungee LLC, and an accountant at Bureau Medved LLC. She has also served as an ACCA Senior Lecturer and Program Leader.

Takeshi
KAMBE

Member of the Remuneration Committee

Takeshi Kambe, a citizen of Japan, was first elected as an independent member of the Board of Directors of GOBI JSC at the Annual General Meeting in April 2008. He has also been appointed as a member of the Remuneration Committee.

TTakeshi Kambe graduated from Keio University, Japan with a Bachelor of Arts and Master of Arts in Economics. He worked as a Human Resources Manager, Branch Administration Manager, and Trade Manager at Japan's Asahi Mutual Life Insurance Company. He then worked as a Loan Specialist of Japan Cooperation Bank's Foreign Cooperation Economic Fund. He also worked on joint projects in Bangladesh, Sri Lanka, and Myanmar with the Asian Development Bank and the World Bank. After that, he worked as the Investment Finance Credit Manager of the International Investment Department of Asian Insurance. He then worked as an Asia Investment Leader in Hong Kong. He then became the Chairman of the Board of Directors and Credit and Research Manager of Asia Real Estate Co., Ltd. He is currently working as a real estate commercial control manager for the Asia Insurance Joint Venture.

REGULAR BOARD MEMBERS

Tsagaach
BAATARSAIKHAN

Member of the
Nomination Committee

Ts. Baatarsaikhan was first elected as a member of the board of GOBI JSC in 2007. He served as a member of the Remuneration Committee and since 2017 he has been serving as a member of the Nomination Committee.

Ts. Baatarsaikhan graduated from the Polytechnic University of Mongolia with a bachelor's degree in Engineering, and from the University of Electrical and Electronics in Tokyo, Japan with a bachelor's degree in Electronics Engineering.

He founded Tavan Bogd Group in 1995 and has held various leadership positions within the group, including CEO of the Group, CEO of Tavan Bogd Trade LLC, CEO of Juulchin LLC, CEO of Palace Hotel, CEO of MIAT Company. Currently, he serves as the President of Tavan Bogd Group, Palace, and as the Chairman of the Board of Directors of Khan Palace Hotel. He is also the Chief Executive Officer of GOBI JSC.

Dashdavaa
KHULAN

Member of the
Risk and Audit Committee

D. Khulan was first elected as a member of the board of GOBI JSC in 2007 and has served in various roles, including the Audit Committee, Chairman of the Remuneration Committee, and member of the Remuneration Committee. Since 2017, she has been appointed as a member of the Risk and Audit Committee.

D. Khulan earned a bachelor's degree in international economics from the Moscow University of Finance in Russia and a master's degree in business management from the National University of Mongolia. Her professional experience includes working as an Economist at the Ministry of Finance and the Foreign Relations Department of Mongolia, as well as a Sales Manager at the Tokyo branch of GOBI Corporation. She also held positions as the First Deputy Director of Tavan Bogd Trade LLC and a Deputy Director at the Trade and Development Bank.

Currently, D. Khulan holds the position of Deputy CEO at Tavan Bogd Group and serves as the CEO of Tavan Bogd Foods LLC and Tavan Bogd Foods Pizza LLC. She is a member of the Board of Directors of Khan Bank and holds the prestigious role of Honorary Consul of Luxembourg in Mongolia.

Javzandolgor
OYUNCHIMEG

Member of the
Remuneration Committee

J. Oyunchimeg was first elected as a member of the board of directors at the Annual General Meeting in September 2016. She has served as a member of Risk and Audit Committee, and currently she has been serving as a member of the Remuneration Committee.

J. Oyunchimeg holds a bachelor's degree in Journalism from the "Shavi" Institute of Journalism in Mongolia. She also obtained a bachelor's degree in Researcher Teacher from the Mongolian Studies School of National University of Mongolia, as well as master's degrees in Journalism and Business Management from the Academy of Management.

Her professional experience includes working as a Journalist at the Mongolia News Today newspaper, Executive Director and Head of Education Department of Oyunii Urgoo University under the Mongolia News LLC and working at the Office of Parliament member. She has also held various positions within Tavan Bogd Group, such as Head of the Marketing Department. Currently she is working as a Chief Marketing Officer of Tavan Bogd Group.

Hideo
SAWADA

Hideo Sawada, a Japanese citizen, was first elected as a member of the Board of Directors of GOBI JSC at the April 2009 Annual General Meeting. He holds a bachelor's degree in Economics from the University of Mainz, Germany.

Hideo Sawada has a remarkable professional background and holds key positions in various organizations. He is the founder and director of International Travel Company and the owner of Voteemak Hotel in Australia. Additionally, he is the founder and chairman of the board of Skymark Airlines. In the financial sector, he serves as the president of H.I.S. Kyoritsu Securities and Smaymak Securities Ltd. Furthermore, he has held significant roles as the President of H.S Securities Company and Chairman of the Board of Directors at Khan Bank. Currently, he is working as the President of H.I.S Group.

CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS

On August 30, 2022, the independent board member, B. Nandin-Erdene, submitted a written notice to the board of directors, expressing his inability to fulfill his duties for an extended period of time. The Nomination Committee convened on September 14, 2022, to discuss his request, and subsequently, at the board meeting held on September 15, B. Nandin-Erdene was dismissed from the position.

In accordance with Article 77.5 of the Company Law and Article 6.2.14 of the Charter of GOBI JSC, D. Khurelbaatar was appointed as a temporary independent member of the board. This appointment will remain in effect until new board members are elected at the 2023 Annual General Meeting.

ELECTION AND APPOINTMENT OF BOARD MEMBERS

According to GOBI JSC's charter, members of the board of directors are appointed for a term of 3 years by using cumulative voting method at the shareholders' meeting.

The Nomination Committee, under the Board of Directors, assesses the active participation, work reports, and performance of board members. Based on the company's long-term strategic planning and business trends, the committee discusses whether to nominate new members or make changes to the composition of the board of directors on a quarterly basis.

Following the "Procedures for Selection and Nomination of Board Members" at GOBI JSC, if the Nomination Committee determines the need to change the composition of the board, including the number of regular and independent members, it establishes additional skill criteria and initiates a selection process. The selection of independent members is conducted openly or from candidates who participated in previous selections. The final list of candidates is approved after evaluation, discussion, and conclusion.

In cases where a board member is unable to perform their duties for an extended period, submits a resignation request, or passes away, the board of directors temporarily appoints a replacement member. This appointment is subject to approval at the next regular shareholders' meeting, where a new member will be elected to fill the position. The temporarily appointed member must meet the requirements for an independent member and assumes all rights and responsibilities of a board member.

SHARE OWNERSHIP OF GOBI JSC BY BOARD MEMBERS

2022.12.31

Name	Share ownership	
	Individual	Related parties
D.Hulan	12,922,652 (1.66%)	Tavan Bogd Trade LLC 392,640,072 (50.33%)
Ts.Baatarsaikhan	50,000 (0.006%)	Tavan Bogd LLC 3,140,239 (0.40%)
Hideo Sawada	-	Hide Inter LLC 265,238,300 (34.00%)
D.Khurelbaatar	4,800 (0.0006%)	

Board members whose names are not listed in the table above do not own shares of GOBI JSC.

REMUNERATION OF BOARD MEMBERS

The compensation of the board of directors is determined by the Remuneration Committee under the Board. The committee engages in detailed deliberations and Annual General Meeting determines the decision-making for the remuneration packages for board members. At GOBI JSC, the remuneration structure for board members consists of a fixed monthly salary and a additional component based on their attendance and participation in board meetings.

During the Annual General Meeting in April 2018, the remuneration of the board of directors was established according to the resolutions adopted during the meeting.

FIXED SALARY

The fixed salary of the board members is 1,000,000MNT per month

Additional salary for the position of the chairman of the board - 800,000MNT per month

Additional salary for the positions of the heads of committees under the board of directors - 300,000MNT per month

PARTICIPATION-BASED PAY

500,000MNT for each participation in the meeting of the board of directors, shareholders' meetings, meetings of the committees attached to the board of directors

In regard to bonuses, incentives are awarded based on the company's financial performance as outlined in GOBI JSC's Salary and Incentive Policy, in accordance with relevant regulations.

SALARY AND INCENTIVES OF 2022

Remuneration of the board members	2021	2022	Growth/decline %
Fixed salary	128,400	128,400	0.0%
Participation-based pay	33,500	34,500	3.0%
Bonus salary	12,486	10,000	-19.9%
Social security contributions	21,079	22,513	6.8%
Total	**195,465**	**195,413**	-0.0%

BOARD OF DIRECTORS' ACTIVITY REPORT FOR 2022

MEETING INFORMATION

Meeting	Regular meetings	Special meetings	Agenda items	Decision	Board recommen-dations	Tasks	Approved resolutions
Board meeting	6	9	56	59	20	18	40
Risk and audit committee meeting	4	1	23	11	26	11	5
Nomination committee meeting	2	1	12	8	8	16	-
Remuneration committee meeting	2	-	9	-	5	9	-
Total	**14**	**11**	**100**	**78**	**59**	**54**	**45**

In 2022, GOBI JSC's board of directors and its affiliated committees conducted a total of 14 regular meetings and 11 extraordinary meetings. Throughout these sessions, a total of 78 decisions were made, including the approval of 45 resolutions. Furthermore, the board provided 59 suggestions and assigned 54 tasks to the management team within the scope of their responsibilities, actively monitoring their implementation.

MEETING ATTENDANCE

№	Name of the Board member	Committee membership	Attendance of the Board meeting	Attendance of the Committee meeting
1	D.Gerelmaa	Chairwoman of the Board, Chair of the Remuneration committee, Member of the Nomination committee	100% 100%	100% 100%
2	D.Khurelbaatar	Chair of the Nomination committee	100%	100%
3	M.Bayar	Chair of the Risk and audit committee	100%	100%
4	A.Jargalmaa	Member of the Nomination committee	100%	100%
5	Takeshi Kambe	Member of the Remuneration committee	100%	100%
6	Ts.Baatarsaikhan	Member of the Nomination committee	100%	100%
7	D.Khulan	Chair of the Risk and audit committee	100%	100%
8	J.Oyunchimeg	Member of the Remuneration committee	100%	-
9	Hideo Sawada	-		

Note: The two board members who live in Japan receive regular and special board meeting information via email and provide their suggestions through email correspondence. As a result, their meeting attendance is recorded based on their active participation and engagement.

FREQUENCY OF MEETINGS

Regular meetings: The Board meeting is held once every two months, totaling six meetings per year. The Risk and Audit Committee meets quarterly, with four meetings conducted annually. The Nomination Committee holds biannual meetings, occurring once every six months. Similarly, the Remuneration Committee also meets twice a year, maintaining a six-month interval between meetings.

Extraordinary meetings: In addition to regular meetings, extraordinary meetings of the board and committees can be convened as needed. Such meetings are initiated upon the request of the chairman of the board, board members, the company's CEO, or members of the management team.

BOARD OF DIRECTORS ACTIVITY REPORT FOR 2022

In 2022, GOBI JSC's board of directors conducted 6 regular meetings and 9 special meetings, addressing a total of 56 issues. During these meetings, 59 decisions were made, and 40 resolutions were approved.

The board recognizes the importance of considering the long-term value of stakeholders and the impact of environmental, social, and governance (ESG) factors on company operations. This perspective goes beyond solely creating shareholder value and encompasses the evolving business perspectives and goals in the pursuit of sustainable and green development. These considerations aim to foster sustainable growth while acknowledging that sustainability factors increasingly influence consumer purchasing decisions and collaboration choices. Investors also place greater emphasis on companies' sustainability strategies and approaches, seeking to understand potential ESG risks stemming from their operations, their ability to manage and overcome these risks, and ultimately their capacity to generate business value.

Aligned with this vision, our company operates in the global market, serving international customers, and fully embraces the concept of sustainable development throughout its operations. We prioritize environmentally friendly production practices, safeguard the interests of our employees and stakeholders, and continuously enhance governance processes. To further support these efforts, the Sustainable Development Division was established in 2021, underscoring our commitment to advancing sustainable business practices.

For the year 2022, the Board of Directors of our company has made a firm commitment to prioritize ESG and sustainability considerations. The "Commitment to Sustainable Development" has been adopted as a guiding principle. During a regular board meeting, which I attended after missing one meeting, I reviewed the report on the progress made within the ESG framework, monitored the implementation of our sustainable development commitment, and provided guidance to the management team.
To enhance the effectiveness of the board's operations, we took steps to improve our "Procedures of the Board of Directors" in August. This update included a more detailed definition of the roles and responsibilities of independent board members. Additionally, in December, we held the inaugural meeting of independent board members as part of an agreed arrangement to convene a separate meeting once a year for independent discussions on company activities. Furthermore, we implemented progressive initiatives to enhance our corporate culture. In November, the board of directors approved the "Whistle Blowing System Operating Procedures" and commenced the implementation of a comprehensive whistle-blowing system across the company. These actions reflect our commitment to fostering a transparent and ethical work environment.

We consistently prioritize the enhancement of our corporate governance system and the protection of shareholder rights. In November, we successfully approved the "Governance Policy" and formulated the "Corporate Governance Code Implementation Program" to guide our governance practices. Additionally, as part of our commitment to ensuring the effective implementation of information transparency, we have successfully updated and implemented the "Regulation of Information to the Public." This regulation aligns with the approved "Regulation of Securities Registration" by the FRC and the "Regulation of Information from the Issuer to the Public" of the Mongolian Stock Exchange.

ACTIVITY REPORT OF THE BOARD COMMITTEES

RISK AND AUDIT COMMITTEE

COMPOSITION

Chair of the committee:	Members:
Independent board member M.Bayar	Independent board member A.Jargalmaa Regular board member D.Khulan

PURPOSE

The Risk and Audit Committee, operating under the Board of Directors, has a primary objective to oversee the accuracy of the company's accounting and auditing activities, financial reporting, and compliance with accounting standards and applicable laws. It also plays a crucial role in establishing risk management policies and strategies. By monitoring the implementation of risk management, evaluating the expertise and independence of independent auditors, and ensuring adherence to internal controls and procedures, the committee enables the Board of Directors to effectively exercise their control functions. In August 2016, the operating rules of the Risk and Audit Committee were revised.

ACTIVITY REPORT OF 2022

The Risk Audit Committee held 4 regular meetings and 1 extraordinary meeting in 2022. They discussed 23 issues, made 11 decisions, and approved 5 resolutions. Within the scope of their duties, the committee provided 26 suggestions and assigned 11 tasks to relevant officials, diligently monitoring their progress.

The committee's extraordinary meeting focused on evaluating risks and implementing countermeasures that could potentially impact the company's operations. They offered valuable suggestions to the management, aiming to enhance the company's risk management and internal control system. During regular meetings, the executive management reviewed the progress of the internal control system, assessed the performance and reports of the risk management team and internal audit department, and provided guidance.

Based on the tasks assigned by the Risk Audit Committee, the Executive Management approved the "Business Continuity Policy." Additionally, at the last committee meeting of the year, they reviewed and approved the internal audit department's mid-term plan until 2026, as well as the budget and work plan for 2023. The committee also reviewed and approved the company's "Risk Management Policy" after considering the project to update the policy during the board of directors' meeting.

Furthermore, the committee reviewed the 2021 financial report and the recommendations of the independent auditor regarding the accounting. They supervised the implementation of these recommendations. In the selection process for the external auditor in 2022, the committee evaluated candidates based on independence criteria and participated in the board meeting. KPMG Audit was selected as the external auditor. The committee also decided to discuss the process of obtaining non-audit services from an external audit organization, and any future requests for non-audit services will require committee approval for each contract.

NOMINATION COMMITTEE

COMPOSITION

Chair of the committee:	Members:
Independent board member D.Khurelbaatar	Independent board member D.Gerelmaa Regular board member Ts.Baatarsaikhan

PURPOSE

The Nomination Committee, operating under the Board of Directors, plays a vital role in assisting the company's board with the selection policy for the appointment of Authorized Officers, Board of Directors members, CEO, and other leaders within the Management Team. Its primary objective is to define the responsibilities of these individuals and evaluate their performance.

In December 2017, the Nomination Committee introduced new rules of procedure.

ACTIVITY REPORT FOR 2022

The Nomination Committee held a total of three meetings in 2022, consisting of two regular meetings and one special meeting. During these meetings, a range of topics were discussed, resulting in eight decisions made by the committee. Furthermore, the committee provided valuable suggestions and closely monitored the progress of 16 assigned tasks to relevant officials within its mandate.

In September 2022, an extraordinary meeting was held to address a request from an independent member of the board of directors who expressed their inability to fulfill their duties personally. Discussions were held to consider the temporary appointment of a suitable replacement for the vacant position.

Throughout the year, the committee conducted a thorough self-assessment of the board of directors' performance in 2022. Based on the assessment outcomes, future tasks and improvements for enhancing the board's operations and efficiency were discussed. Additionally, the committee reviewed and approved the model memorandum and confidentiality agreement for board members.

The committee also reviewed the half-yearly and annual reports of the management team, paying close attention to the conclusions provided by the executive director. Recommendations for improving operations were made based on these reports. Furthermore, the committee identified two managers who demonstrated exceptional leadership and management skills, nominating them for an esteemed award named after the board of directors.

During the final meeting of the year, the committee discussed the nomination of a board member representing an influential shareholder. Subsequently, the committee determined and approved the candidates' names to be presented for nomination at the upcoming 2023 shareholders' meeting.

REMUNERATION COMMITTEE

COMPOSITION

Chair of the committee:	Members:
Independent board member D.Gerelmaa	Independent board member Takeshi Kambe Regular board member J.Oyunchimeg

PURPOSE

The Remuneration Committee, operating under the Board of Directors, serves the purpose of establishing the salary and bonus policy to guide the compensation of the Board of Directors, Authorized Officers, members of the Board of Directors, CEO, and other leaders within the management team. Additionally, the committee plays a crucial role in determining the company-wide salary and bonus policy, ensuring compliance with relevant laws and regulations. It provides recommendations and conclusions aligned with regulatory frameworks, approves the annual salary and bonus budget, and supports the implementation of performance monitoring functions.

In December 2017, the Remuneration Committee undertook a revision of its operating rules..

ACTIVITY REPORT FOR 2022

In 2022, the Remuneration Committee held 2 regular meetings and discussed and resolved 9 issues. Within the scope of the committee's duties, 5 types of suggestions and 9 tasks were given to the relevant officials and monitored.

This year, the committee reviewed the company-wide salary and bonus and social responsibility report. They also discussed the progress of the "Investor employee" or employee share ownership program, which began in 2021, and how to implement the program in the future.

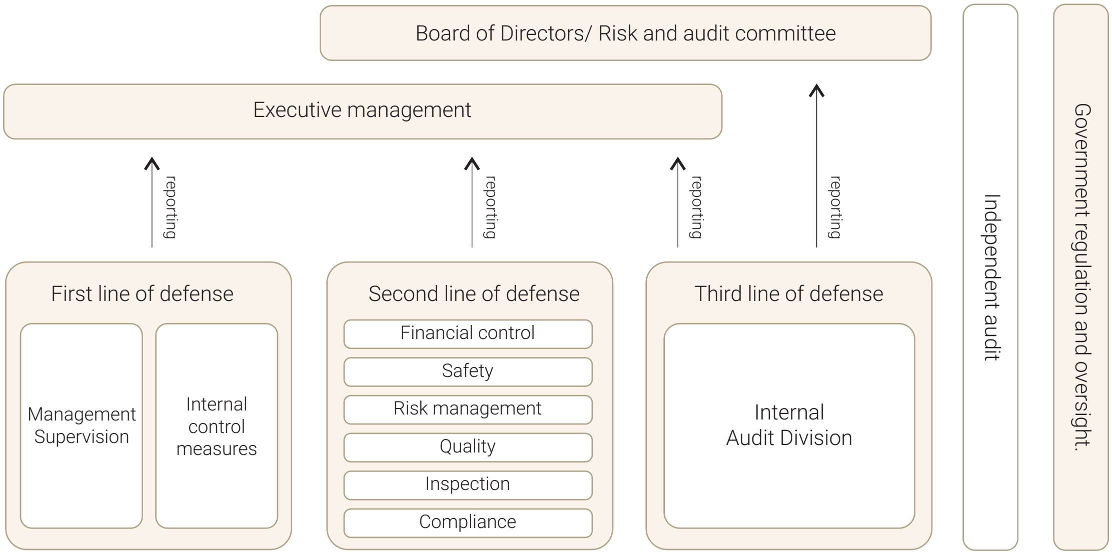
In 2022, the company carried out a step-by-step update of its company-wide salary incentive system and performance evaluation criteria.

Also, the committee reviewed the results of the organizational culture survey, employee satisfaction survey, and the improvement initiatives based on those results, providing suggestions.

At the last meeting of the committee, the performance of the previous year's salary and incentives was monitored, and the salary and incentive budget for 2023 was approved. Additionally, a proposal for changing the salary of the board of directors was discussed, and it is planned to be approved at the shareholders' meeting in 2023.

INTERNAL CONTROL SYSTEM

Our company has implemented the "Three Lines of Defense" model to enhance its internal control system and optimize operational efficiency. This model serves as a valuable framework for effectively planning, executing, reporting, monitoring, and coordinating critical management functions on a day-to-day basis.



The First Line of Defense consists of the business units responsible for the primary activities of the company. These units diligently carry out daily controls and reporting in alignment with the functions assigned by the Executive Management.

The Second Line of Defense comprises the units that provide support to the company's core operations. These units are responsible for conducting daily monitoring and reporting activities in accordance with the directives set by the Executive Management.

The Third Line of Defense assesses the effectiveness of the internal control system implemented by executive management. It reports findings to the Risk and Audit Committee and provides recommendations for improvement to the Executive Management.

INTERNAL CONTROL POLICY

The Internal Control Policy of the company was approved by the Board of Directors in October 2021. This policy aims to regulate and oversee various aspects crucial to the effective functioning of the company. These include:

- Efficient management of activities in compliance with relevant laws and regulations.
- Protection of company assets and ensuring their reliability.
- Prevention, detection, and correction of abuse, fraud, and errors.
- Ensuring completeness and accuracy in accounting.
- Timely, accurate, and factual preparation of operational and financial information.
- Regular monitoring and management of risks.

Gobi JSC implements internal control through a hierarchical structure involving all employees, unit management, the executive management team, the internal audit department, the Risk and Audit committee under the board of directors, the board of directors itself, and cross-audits.

The internal control policy document includes the rights and obligations of stakeholders, and the board of directors monitors the company's internal control activities through the Risk and Audit Committee.

INTERNAL AUDIT DIVISION

PURPOSE

The purpose of internal audit is to safeguard and enhance the value of the organization by assessing the effectiveness of the company's governance processes, risk management, and internal control, while facilitating their ongoing improvement. In our operations, we adhere to the code of ethics, fundamental principles, and international standards of professional practice for internal auditing as approved by the "International Institute of Internal Auditors".

STRUCTURE AND ORGANIZATION

Internal audit activities are conducted under the oversight of the Risk and Audit Committee, which operates under the authority of the Board of Directors. These activities are carried out by the Internal Audit Department, which consists of a team of 6 professionals, including 1 department head, 2 senior auditors, and 3 auditors. The Risk and Audit Committee is responsible for approving the Internal Audit rules, setting strategic goals, establishing risk-based audit plans, and allocating necessary resources. Additionally, the committee appoints department heads, determines salaries and bonuses, and actively monitors the execution and operation of audit plans to ensure their effectiveness. The Risk and Audit Committee is to safeguard the independence and objectivity of the Internal Audit function.

SCOPE OF OPERATIONS

The department's scope of operations encompasses ensuring that all company departments deliver quality performance by fulfilling their assigned responsibilities, including decision-making, policy definition, business and support processes, as well as compliance and reporting activities, in order to achieve the company's goals and objectives.

ACTIVITY REPORT OF 2022

- During the verification process, a total of 71 issues were identified for consideration, with risks and causes identified, and suggestions and recommendations were provided for their resolution.
- The monitoring work reviewed the implementation of 94 recommendations across 9 packages, with a focus on increasing the implementation percentage to address identified issues, mitigate risks, and enhance outcomes.
- The executive management offers consultancy services, providing necessary suggestions and recommendations, and collaborating accordingly.
- Evaluation was conducted to assess the effectiveness of the company's governance, internal control, and risk management systems, offering recommendations and support to enhance the company's value and foster continuous improvement.
- Internal evaluation of the quality assurance in internal audit was conducted, addressing areas for improvement and enhancing internal audit activities.

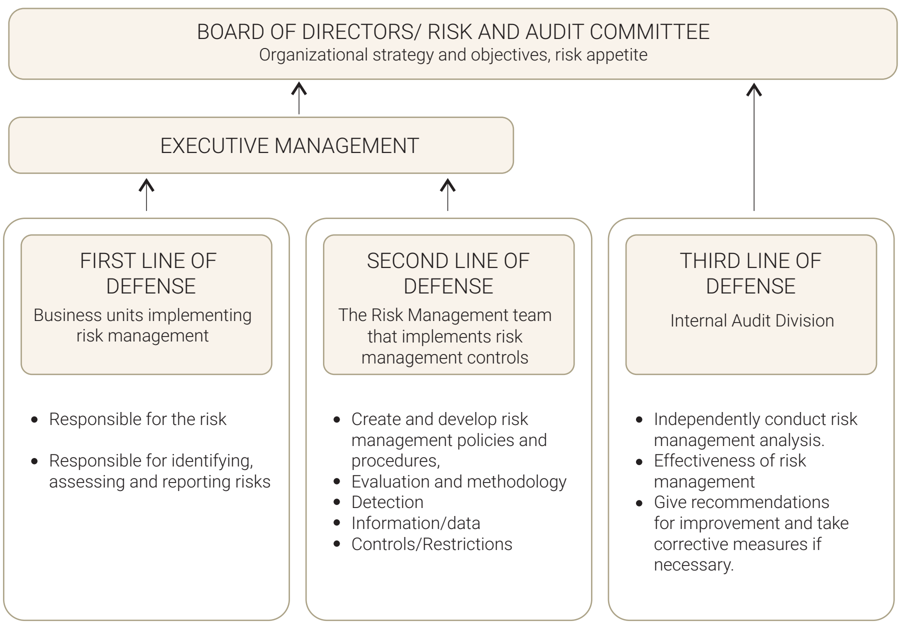
RISK MANAGEMENT

PURPOSE

The primary objective of risk management is to enhance the company's profitability and optimize the return on capital by identifying, quantifying, and mitigating risks in line with the risk-return ratio. This process plays a pivotal role in ensuring the organization's sustained profitability and establishing a management system that aligns with the company's overarching vision and values.

The implementation of risk management fosters a conducive environment for continuous monitoring and enhancement of the business risk landscape. It enhances employees' understanding and awareness of risks, enables informed strategic decision-making at the management level, aligns with business goals and objectives, and safeguards the organization against potential losses, damages, and disruptions.

STRUCTURE AND ORGANIZATION OF RISK MANAGEMENT



The risk management structure of Gobi JSC's risk management system is governed by the "Three Lines of Defense" model.
One of the key objectives of the board of directors is to establish a comprehensive framework for risk management, including clear controls and defined responsibilities. The Risk Management Team, appointed by the Executive Director, assumes the responsibility of the second line of defense for risk management. They conduct quarterly reviews to assess risks in accordance with the risk recognition standards outlined in the approved risk management policy by the Board of Directors. The outcomes of these reviews are then reported to the Risk and Audit Committee.

The risk management team consists of senior executives within the company, led by the Deputy CEO. Their role is to oversee and manage risk-related activities, ensuring that effective risk management practices are implemented throughout the organization.

ACTIVITY REPORT OF 2022

Risk Management Framework

- Gobi JSC has enhanced its risk management system by aligning its operations with the ISO/IEC 31000:2018 standard, the Three Lines of Defense model, and recommendations from international professional organizations. The company has initiated a phased approach to updating its related policies and procedures.
- As part of this effort, we have implemented robust processes for identifying, evaluating, monitoring, and reporting company-specific risks, effectively keeping risks at a minimal level.
- Prompt response measures are swiftly implemented to mitigate future risks within the organization, ensuring the continued effectiveness of our integrated risk management system.
- A comprehensive risk assessment and analysis have been conducted at the organizational level, resulting in the development of a unified risk register and an action plan to reduce residual risks. Management is provided with relevant risk-based information to make informed decisions.
- The risk management team has been reappointed in accordance with the revised organizational structure.
- Risk appetite and tolerance levels for key risks are being redefined using advanced international methodologies, ensuring a broader and more comprehensive approach to implementation.
- Regular reports on the implementation of risk management are provided to the Risk and Audit Committee.
- In light of the numerous policy documents approved since 2020, the Risk Management Policy has been revised to align with these policies, and proposed updates to the Risk Management Implementation Procedures are underway to ensure the effective implementation of this policy.

Raising Awareness of Company's Risk Culture

In line with our commitment to fully implement risk management activities throughout the organization, the following initiatives have been undertaken:

- Based on the findings of last year's "Risk Culture" research, efforts are underway to enhance and improve the overall risk culture.
- Each unit within Gobi JSC is responsible for defining and managing its operational processes, clearly outlining the roles and responsibilities of participants to effectively mitigate operational risks.
- Employees are provided with comprehensive training and knowledge in risk management, and we are dedicated to their continuous development and improvement in this area.
- In order to facilitate risk assessment for Risk Officers and unit managers in the first line of defense, thorough analyses have been conducted for each risk category, providing guidance on "How to assess your risk."
- We are actively working to design user-friendly risk assessment methods and approaches, collaborating with regional units to define key risk indicators.
- Our focus has been on establishing robust risk management practices and maximizing their value across the organization.

RISK MONITORING MEASURES FOR 2022

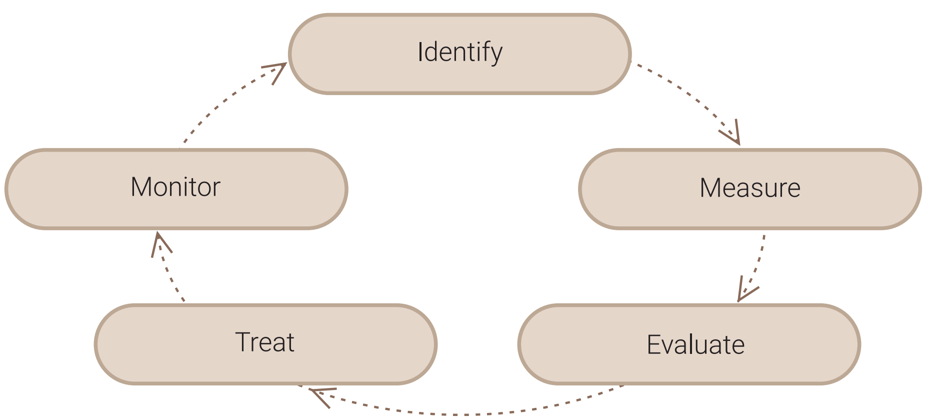
Risk level	Risk value
Extreme	20-25
High	10-16
Medium	4-9
Moderate	2-3
Low	1

As of January 2022, a total of 168 risks necessitating management action were identified, with an average score of 7.3, indicating a MEDIUM level of risk. Throughout the reporting period, our focus was on reducing the average risk score to a LOW level by the year-end.

By the conclusion of the fourth quarter in 2022, 8 risks have been successfully mitigated and closed, resulting in a total of 160 remaining risks, with an average score of 3, indicating a LOW level of risk. The risk management team diligently maintains control over these risks and conducts regular monitoring and management activities to ensure their ongoing mitigation.

PROCEDURE FOR IMPLEMENTING THE RISK MANAGEMENT

Risk is managed through the implementation of a five-step process.



OUR COMPANY
GOBI IN 2022
OUR OPERATIONS
SUSTAINABLE DEVELOPMENT
FINANCIAL STATEMENTS

INFORMATION ON RISKS AND RESPONSES OF 2022

Areas of activity	Risk	Response
Financial management	• Foreign exchange rate risk stemming from the impact of the macro environment. • Risk of price increases for essential and ancillary materials due to inflationary pressures.	• Gobi JSC mitigated exchange rate risk by increasing its foreign currency sales revenue. • The company maintained its profit margin by adjusting the selling price of products in response to the increase in the cost of basic and auxiliary materials.
Overseas /Online Sales	• The risk to European transport has increased due to the ongoing conflict between Russia and Ukraine. • Delays in shipments occurred as a result of heightened customs inspections and the implementation of the zero COVID policy in China.	• The decision was made to temporarily suspend our Russian e-commerce website until the end of the war, while maintaining regular updates on global news. • Extensive research was conducted to identify alternative transportation routes that remained unaffected by blockades, in order to address any challenges faced in exporting goods. Transportation logistics were efficiently organized by proactively estimating the border load, ensuring smooth operations.
Domestic sales	• The decreasing purchasing power of consumers, attributed to socio-economic changes in the country, has the potential to impact future sales. • There has been an increase in online consumer complaints. • Potential ethical and relational risks are associated with customer service.	• Measures were implemented to increase awareness of the domestic online sales channel and optimize marketing activation. • All customer complaints were registered and resolved according to the established procedure, resulting in a 31.8% decrease in consumer complaints regarding finished products compared to the same period last year. • A "Whistleblowing System" was introduced to encourage ethical practices and provide a platform for stakeholders to report concerns. • Training sessions were conducted with a UNDP gender consultant to enhance understanding of ethics, human rights, and the use of whistleblowing systems. • Emphasis was placed on improving employee knowledge and understanding of "Customer Service Standards" and promoting ethical communication.

Areas of activity	Risk	Response
Production /Supply	• Economic changes within the country and the ongoing conflict between Russia and Ukraine. • The implementation of China's zero COVID policy posed a risk of raw material shortages.	• Transportation logistics were efficiently organized, aligning with factory planning and considering pre-calculated transportation time. • Accurate assessment of inventory and raw material requirements allowed for proactive estimation of purchases and allocation of sufficient resources. • Regular evaluations were conducted to determine the age of inventory and historical tissue remnants, ensuring effective inventory management practices. • Plant planning was designed with flexibility to adapt to current conditions, allowing for responsive adjustments when necessary.
Activity	• Sharp increase (30-40%) in consumer goods prices in the market. • Potential risk of labor shortage within the organization.as employees choose to seek opportunities abroad.	• Implemented a comprehensive key employee retention program to enhance employee retention and minimize turnover. • Enhanced skills assessment and training development activities to foster continuous improvement and professional growth among employees. • Implemented improvements in the social welfare system, aimed at promoting sustainable employment, boosting productivity, and introducing phased wage increases.

QUALITY MANAGEMENT

Gobi JSC rigorously conducts quality checks on 230 indicators throughout the entire production process, from sourcing raw materials from herders to delivering certified products that meet national and multi-standard requirements to customers through domestic, foreign, and online channels, while strictly adhering to technological procedures.

We have implemented a comprehensive quality management system throughout all stages of production to fulfill customer requirements. This system adheres to 102 national MNS standards, 16 company policies, 134 procedures and technological processes, 23 work instructions and directives, as well as 14 manuals. We are committed to conducting 100% quality control and continuously improving our quality management system.

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The company

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for the following articles:

Yarns made of 100% cashmere in natural white, beige, warm grey and brown, or bleached, fiber-dyed (in a limited range of 16 reactive dyestuffs)

The results of the inspection made according to STANDARD 100 by OEKO-TEX®, Annex 4, **product class II** have shown that the above mentioned goods meet the human-ecological requirements of the STANDARD 100 by OEKO-TEX® presently established in Annex 4 for products with direct contact to skin.

The certified articles fulfil requirements of Annex XVII of REACH (incl. the use of azo colourants, nickel release, etc.), the American requirement regarding total content of lead in children's articles (CPSIA; with the exception of accessories made from glass) and of the Chinese standard GB 18401:2010 (labelling requirements were not verified).

The holder of the certificate, who has issued a conformity declaration according to ISO 17050-1, is under an obligation to use STANDARD 100 by OEKO-TEX® mark only in conjunction with products that conform with the sample initially tested. The conformity is verified by audits.

The certificate BJ005 187406 is valid until 31.07.2023

Zurich, 03.08.2022

Matz Bachmann
Managing Director

Dijana Ajdinovic
Ecology Team Leader

The yarn manufactured by Gobi JSC successfully complies with the "STANDARD 100 by OEKO-TEX" standard established by the prestigious OEKO-TEX organization in Zurich, Switzerland. This recognition was initially granted in 2020, and subsequently renewed for the third time in 2022. The certification serves as a testament to the commitment of Gobi JSC in ensuring that its yarn is free from harmful substances, providing consumers with the assurance of its safety and reliability in terms of human health.

sfa

SUSTAINABLE FIBRE ALLIANCE
Creating A Sustainable Supply Chain

CERTIFICATION OF ACCREDITATION
GOLD AWARD

State Registration № 9011053026 SFA Registration № SFA-00197

GOBI JSC

has been assessed and satisfies the requirements of the
SFA Clean Fibre Processing Code of Practice V. 1

Date of Issue: December 2021 Expiry date: December 2022

Charles Hubbard
SFA Chairman

Dr. Batkhishig Baival
SFA Country Director

This certificate is only valid if registered in the database of the www.sustainablefibre.org

This certificate of compliance does not provide proof that any goods delivered by its holder are SFA-certified. Proof of SFA-certification of goods delivered is provided by a valid Transactional Certificate covering them.

The SFA can withdraw this certificate before it expires if the declared compliance is no longer guaranteed.

Certificate number: SFA 2021 - 04

In 2022, Gobi JSC's Primary Factory showcased outstanding dedication to upholding the "Clean Fibre Processing Code of Practices V.1" established by the esteemed Sustainable Fibre Alliance (SFA) based in England. We take pride in receiving the prestigious "Gold Award" for the second consecutive time, which serves as a testament to our unwavering commitment to human resources management, labor safety, and environmentally sustainable practices. This recognition further instills confidence in our valued customers and clients, assuring them of the meticulous processes involved in sorting, washing, and combing raw materials at our primary factory.

CERTIFICATE OF
SUSTAINABLE TEXTILE PRODUCTION

NUMBER: 01

ENTERPRISE / ORGANIZATION:
NAME: GOBI JSC
ADDRESS: Gobi building, Factory street, 3rd khoroo, Khan-Uul district
TEL/FAX:
E-MAIL:

HAS BEEN DULY AWARDED THIS CERTIFICATE FOR 3 YEARS DURATION IN RECOGNITION OF ITS SUBJECT TO CONFORMITY ASSESSMENT AND MEETS THE REQUIREMENTS OF MNS 6926:2021 "SUSTAINABLE TEXTILE PRODUCTION" STANDARD AND NORMATIVE DOCUMENTS.

Mongolian wool and cashmere association Executive Director
Certification analyst:
2022.12.26 Issued date
2025.12.26 Expire date

MNS 6926:2021, the "Sustainable Textile Production" Mongolian National Standard, was officially ratified in 2021 to establish fundamental principles and requirements for sustainable textile production and conduct comprehensive evaluations and verifications.

Gobi JSC actively engaged in the certification process for this standard in May and November 2022, and obtained Approval No. 01, thereby affirming its commitment to operating an environmentally conscious, well-governed, socially responsible, and ethically sound management system at each stage of its production.

СТАНДАРТ, ХЭМЖИЛ ЗҮЙН ГАЗАР

ТОХИРЛЫН ГЭРЧИЛГЭЭ

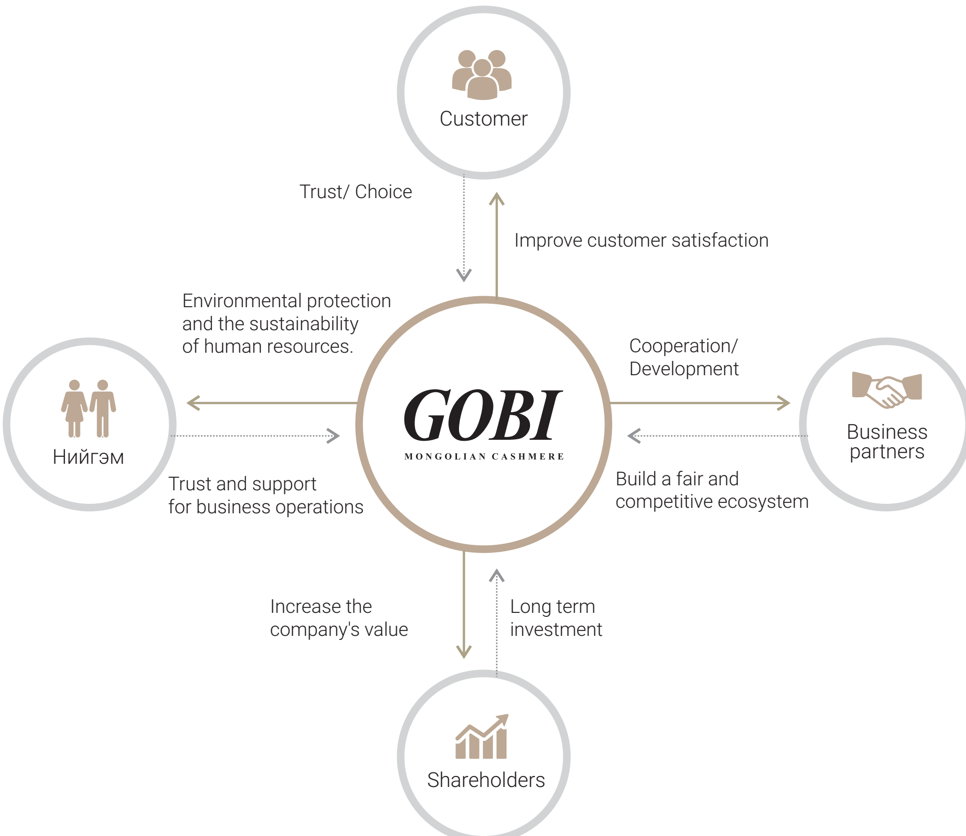
СТАНДАРТ, ХЭМЖИЛ ЗҮЙН ГАЗАР

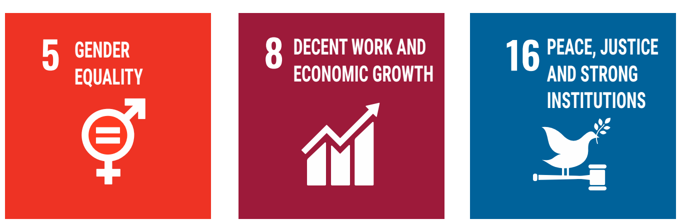
Нэр: "Говь" ХК
Регистр: 2076357
И-мэйл: info@gobi.mn

The certificate verifying the adherence of Gobi JSC's washed and combed cashmere, cashmere yarn, cashmere woven drapery, woven, knitted, and sewn cashmere products to the applicable standards and normative technical documents has been extended for a duration of three years.

COMPLIANCE MANAGEMENT

Ethical adherence holds paramount importance within Gobi JSC's sustainable development policy and objectives, with all corresponding measures guided by a comprehensive framework for compliance management.
The establishment of a resilient compliance management system plays a critical role in fostering trust among employees, customers, and both internal and external stakeholders. Moreover, it serves as an effective mechanism for mitigating potential risks.





In 2022, Gobi JSC embraced the Compliance Policy and Objectives as an integral component of its organizational framework. This policy aligns with the United Nations' 17 Sustainable Development Goals, specifically focusing on "Goal 5: Gender Equality," "Goal 8: Decent Work and Economic Growth," and "Goal 16: Peace, Justice, and Strong Institutions," further reaffirming our commitment to these essential pursuits.

Furthermore, in 2022, we underwent a comprehensive revision of our "Code of Ethics" and "Values". With a shared commitment to providing superior, fashionable, sustainable, and competitively priced luxury Mongolian cashmere products to discerning global consumers, our team stands united in our refreshed set of values.

WHISTLEBLOWING SYSTEM

A significant achievement in 2022 was the successful implementation of our Whistleblowing Management System. As part of this initiative, Ms. D. Gerelmaa, the Chairwoman of the Board of Directors, has been appointed as the Human Rights Ambassador for the launch of the whistleblowing system, accessible at https://info.gobi.mn/whistleblowing. This system empowers the Board of Directors, Nomination Committee, and Ethics Committee to directly receive and address information, ensuring the detection, resolution, prevention, and continuous improvement of any ethical violations within a framework that is fair and transparent.

The diverse Ethics Committee comprises employees with extensive knowledge, skills, and experience across domains. Democratically elected, the committee includes representatives from all levels of our organization, reflecting our commitment to workplace diversity and promoting accessible communication of ethical standards throughout the company.

We have strategic plans to continually improve and monitor the Ethics Committee and Whistleblowing System, while providing comprehensive ethical education to foster a strong ethical culture company-wide.

The following is the highlights of compliance activities arranged in chronological order:

HIGHLIGHTS OF 2022

APRIL

Compliance policy, goals and objectives are approved.

JUNE

Gobi JSC has successfully updated its core Values.

JULY

A comprehensive series of training sessions and meetings were meticulously organized to ensure active participation from all employees in familiarizing themselves with the revised “Vision, Mission, Values, and Slogans," thereby enhancing their knowledge and comprehension

AUGUST

The newly approved Code of Ethics was introduced. For more information, please visit https://info.gobi.mn/whistleblowing/purpose.

NOVEMBER

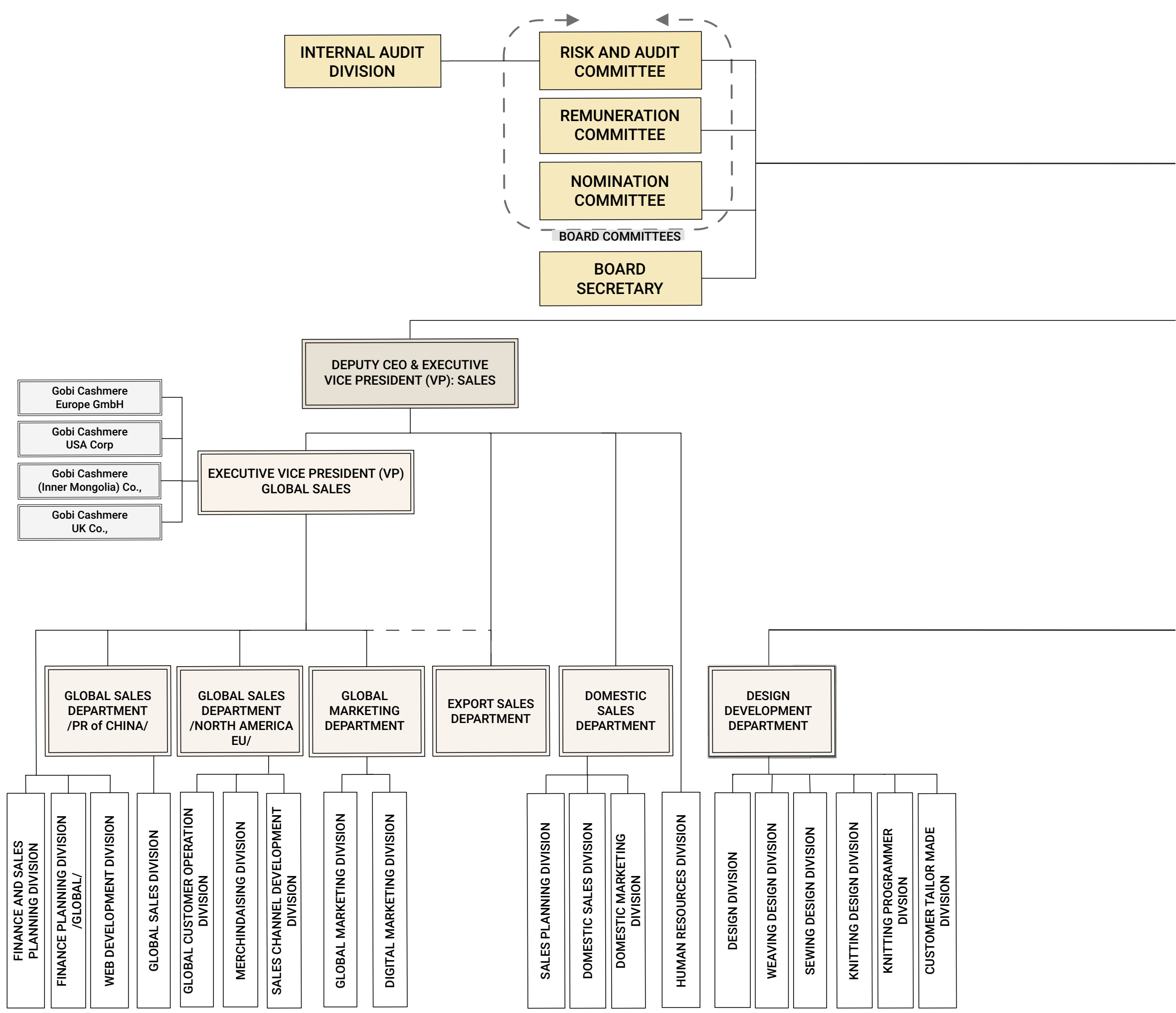
- The operational procedures for the Whistle-blowing system were duly approved.
- The Whistle-blowing system, available at https://info.gobi.mn/whistleblowing, was launched, providing a confidential platform for reporting concerns and promoting transparency.
- In collaboration with the United Nations, Gobi JSC distributed the Human Rights - Ethics in the Workplace training program to all employees, further enriching their understanding and knowledge of ethical practices.

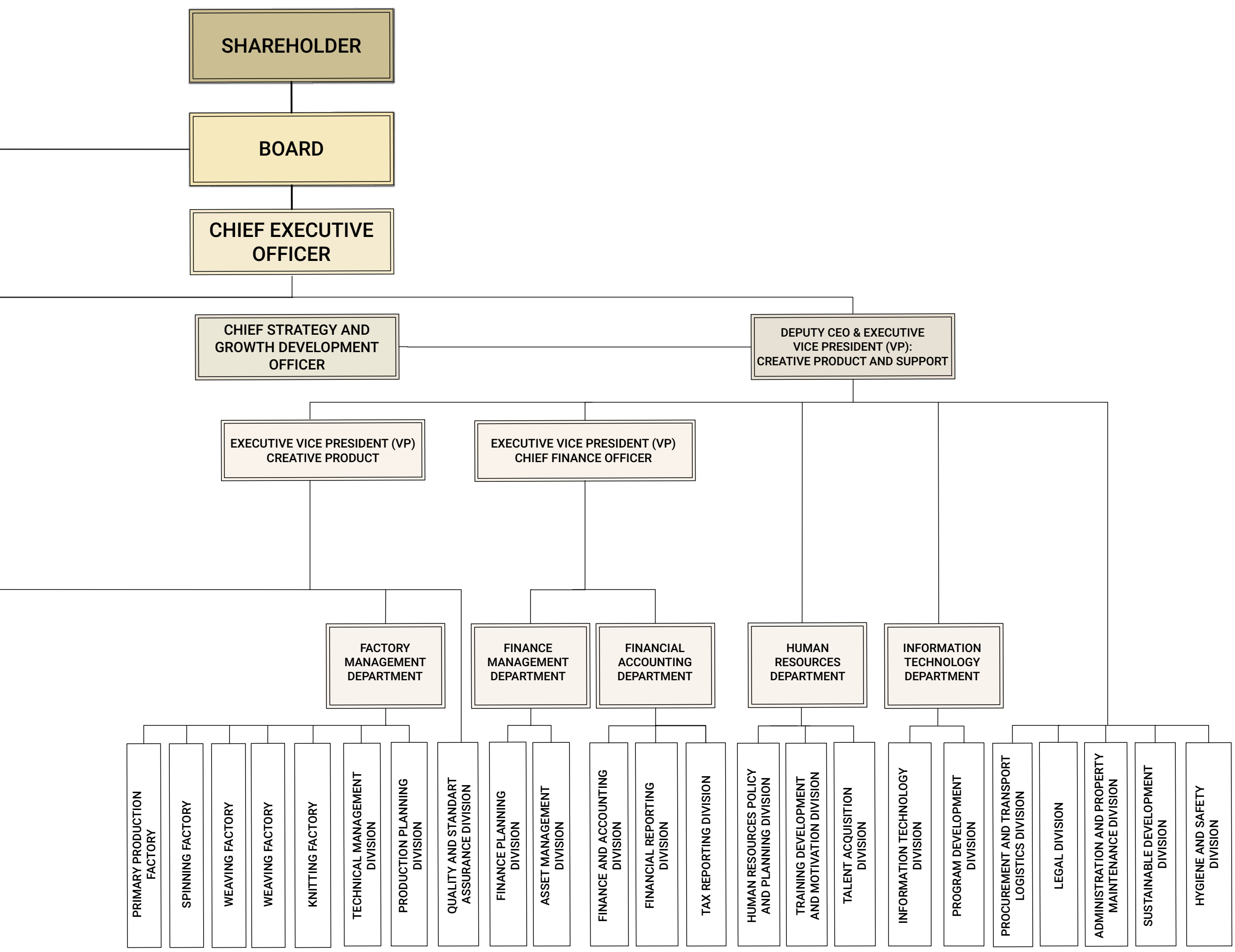
DECEMBER

An Ethics Committee was established, composed of representatives elected through an inclusive and transparent election process, involving employees from all levels of the organization.

Furthermore, the Board of Directors, the Nomination Committee, and the Ethics Committee engaged in an open discussion, establishing the guiding principles for the Ethics Committee's future activities.

ORGANIZATION CHART OF GOBI JSC





- Department-10
- Division-38
- Factory-5

SIGNIFICANT CHANGES IN THE COMPANY'S STRUCTURE AND ORGANIZATION:

Senior Management:

- Reporting directly to the CEO, our senior management team comprises a Deputy CEO and Executive VP /Sales/, a the Deputy CEO and Executive VP /Design, Production, and Support function/, and a Chief Strategy and Growth Development Officer.

Financial Management Division:

- In a structural realignment, the functions previously handled by the Management Department within the Financial Management Department have been transferred to the Asset Management Division and the Financial Planning Division.

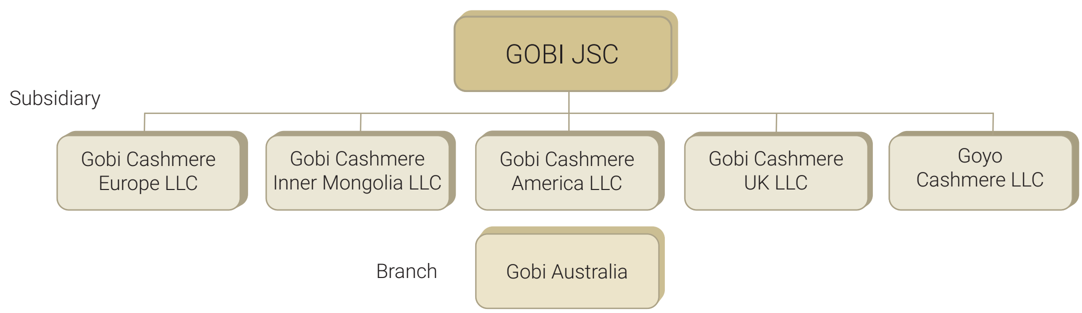
Online Sales Division:

- The Online Sales Division has been rebranded as the Foreign Sales Division.

Sustainable Development Division:

- As part of our organizational optimization, the Sustainable Development Division, previously integrated with the Occupational Health, Safety, and Environment Department, has been repositioned under the leadership of the Deputy CEO and Executive VP /Design, Production, and Support function/. It now operates independently as the dedicated Sustainable Development Division.

STRUCTURE OF GOBI GROUP



CHANGES IN THE STRUCTURE OF GOBI GROUP

On March 11, 2022, the board of directors of Gobi JSC made the strategic decision to establish a subsidiary company in the United Kingdom.

SUBSIDIARY AND BRANCH INFORMATION

№	Subsidiary name	Location	Areas of activity
1	Gobi Cashmere Europe LLC	Schönefeld, Germany	Trade and service
2	Gobi Cashmere Inner Mongolia LLC	Erlian city, PRC	Trade and service
3	Gobi Cashmere America LLC	LA, USA	Trade and service
4	Gobi Cashmere UK LLC	London, UK	Trade and service
5	Goyo Cashmere LLC	Ulaanbaatar, Mongolia	Production, trade and service

№	Subsidiary name	Location	Areas of activity
1	Gobi Australia	Sydney, Australia	Trade and service

MANAGEMENT TEAM

Tsagaach BAATARSAIKHAN
Chief Executive Officer

Years of service
at Gobi JSC: 16 years

Batchuluun ARIUNAA
Deputy CEO & Executive
Vice President (VP): Sales

Years of service
at Gobi JSC: 10 years

Tsogtgerel ORGILBOLD
Deputy CEO & Executive Vice President (VP):
Design, production and support function

Years of service
at Gobi JSC: 3 years

Baatarsaikhan AMARSAIKHAN
Chief Strategy and
Growth Officer

Years of service
at Gobi JSC: 3 years

Otgontugs MISHEEL
Executive Vice President (VP):
Global Sales

Years of service
at Gobi JSC: 6 years

Batsuuri BOLORMAA
Executive Vice President (VP):
Creative Product

Years of service
at Gobi JSC: 16 years

Batsukh ENKHMANDAKH
Executive Vice President (VP):
Chief Finance Officer

Years of service
at Gobi JSC: 9 months

Demberelnyam SOYOLMAA
Chief Human Resources Officer

Years of service
at Gobi JSC: 9 months

Chuluunbat UNENBAT
Chief Global Sales Officer:
North America & EU

Years of service
at Gobi JSC: 2 years

Mendsaikhan KHISHIGMUNKH
Chief Global Sales Officer: Asia

Years of service at Gobi JSC: 2 years

Gantumur ANUDARI
Chief Sales Officer: Export

Years of service at Gobi JSC: 8 years

Erdenetsetseg ZOLZAYA
Chief Factory & Manufacturing Officer

Years of service at Gobi JSC: 4 years

Amar UCHRAL
Director of Design and Development

Years of service at Gobi JSC: 8 years

Duikherjav SODGEREL
Director of Finance Accounting

Years of service at Gobi JSC: 12 years

Tumursanaa BAYASGALAN
Chief Technology Officer

Years of service at Gobi JSC: 1 month

Tsogtbayar TSASCHIKHER
Chief Legal Officer

Years of service at Gobi JSC: 9 years

Munkhbat SELENGE
Board Secretary

Years of service at Gobi JSC: 6 years

Nyamjav SAINZUL
Head of Internal Audit Division

Years of service at Gobi JSC: 8 years

INFORMATION ON SHARE OWNERSHIP OF GOBI JSC BY EXECUTIVES OF THE MANAGEMENT TEAM

Name	Position	Ownership of Gobi JSC	
		Individual	Related parties
Ts. Baatarsaikhan	Chief Executive Officer, Board Member	50,000 (0.006%)	Tavan Bogd Trade LLC 392,640,072 (50.33%), Tavan Bogd LLC 3,140,239 (0.40%)
Ts. Orgilbold	Deputy CEO & Executive Vice President (VP): Design, production and support function	-	
B. Amarsaikhan	Chief Strategy and Growth Officer	1,000 (0.0001%)	
B.Ariunaa	Deputy CEO & Executive Vice President (VP): Sales	1,000 (0.0001%)	-
O.Misheel	Executive Vice President (VP): Global Sales	1,000 (0.0001%)	-
B.Bolormaa	Executive Vice President (VP): Creative Product	1,000 (0.0001%)	-
Ch.Unenbat	Chief Global Sales Officer: North America & EU	1,000 (0.0001%)	-
M.Khishigmunkh	Chief Global Sales Officer: Asia	800 (0.0001%)	-
G.Anudari	Chief Sales Officer: Export	800 (0.0001%)	-
A.Uchral	Director of Design and Development	800 (0.0001%)	-
E.Zolzaya	Chief Factory & Manufacturing Officer	1,000 (0.0001%)	-
D.Sodgerel	Director of Finance Accounting	800 (0.0001%)	-
Ts.Tsaschikher	Head of Legal Division	1,000 (0.0001%)	-
M.Selenge	Board Secretary	185 (0.0000%)	-
N.Sainzul	Head of Internal Audit Division	800 (0.0001%)	-

Management team executives whose names are not listed in the table above do not own shares of Gobi JSC.

REMUNERATION OF THE MANAGEMENT TEAM

Gobi JSC establishes and computes the remuneration of its entire workforce in alignment with the Remuneration Policy sanctioned by the Board of Directors and the Salary Disbursement Procedure authorized by the CEO. In 2022, the organization implemented enhancements to its company-wide salary and bonus framework, transitioning towards a performance-driven compensation system that rewards productivity.

The salary framework for the management team:

Base salary + **Performance-based bonus /KPI/**
- Indicators related to the company's sales and profits
- Performance indicator of the employee's planned work

Gobi JSC adheres to its Remuneration Policy and Performance Bonus Rules. Bonuses are awarded based on the attainment of specific criteria tied to sales performance and net profit performance, as outlined in the annual business plan. The criteria are contingent upon the company's financial outcomes, ensuring alignment with the organization's overall performance.

REMUNERATION OF 2022

/thousand MNT/

Remuneration of the management team	2021 он	2022 он	Growth/decline %
Remuneration	1,350,688	1,566,703	16.0%

COMPANY'S STOCK MARKET PERFORMANCE

The market value of Gobi JSC, as of December 31, 2022, amounted to 193,717,536,000 MNT. The annual trading data is presented below graphically:

52-WEEK TRADING RANGE

INDICATOR	2021	2022	Growth/ decline %
TOTAL NUMBER OF ISSUED SHARES	780,112,500	780,112,500	-
STOCK PRICE /MNT/			
Closing price	325.64	248.32	-23.7%
Highest price	393.62	311.50	-20.9%
Lowest price	193.01	242.73	25.8%
Average price	270.67	272.19	0.6%
TRADING VOLUME			
Highest /per day/	4,338,588	1,234,986	-71.5%
Lowest / per day /	2,768	392	-85.8%
Average / per day /	81,860	30,701.6	-62.5%
Total	20,464,962	7,552,604	-63.1%
TRADING PRICE /MNT/			
Highest /per day/	1,106,339,940	336,411,123	-69.6%
Lowest / per day /	539,822	107,018	-80.2%
Average / per day /	22,492,411	8,519,435	-62.1%
Total	5,623,102,771	2,095,780,903	-62.7%
MARKET CAPITALIZATION /MNT/	254,035,834,500	193,717,536,000	-23.7%

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	Gobi JSC was privatized in 2007, we are distributing previously announced dividends at our company's office.
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	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.
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	-	-	No dividends were distributed.
2020	780,112,500	-	-	
2021	780,112,500	-	-	
2022	780,112,500	-	-	

BOARD RESOLUTION ON NON-DISTRIBUTION OF DIVIDENDS FOR THE 2022 FINANCIAL RESULTS

In a meeting held on February 3, 2023, the Board of Directors of Gobi JSC made a resolution not to distribute dividends for the financial year ending December 31, 2022. The financial results of 2022 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

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022

INDEPENDENT AUDITOR

The Risk Audit Committee of Gobi JSC is responsible for ensuring the independence, qualifications, work experience, and adherence to criteria of the independent auditor. It evaluates whether these criteria are met, discusses and approves the rights, duties, responsibilities, and fees of the independent auditor, along with other agreed-upon conditions, in consultation with the board of directors. In addition to overseeing the activities of the independent auditor, the committee also supervises the implementation of management's recommendations

For the financial year ending December 31, 2022, the financial statements of Gobi JSC were subject to external audit by KPMG Audit LLC. The contract amount for audit services is 228,174,328 MNT.

KPMG Audit LLC is recognized as one of the four largest international audit firms and has been registered with the Financial Regulatory Commission as an Audit Company providing services to the Securities Market since 2013.

GOBI JSC AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR’S REPORT

December 31, 2022

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

CONTENTS

General information

Chairwoman	D. Gerelmaa
Members of Board of Directors	Ts. Baatarsaikhan D. Khulan J. Oyunchimeg Hideo Sawada
Independent members of Board of Directors	Kambe Takeshi D. Khurelbaatar M. Bayar 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 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 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 2022 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 2022 were authorised for issuance by the Group's management.

Ts. Baatarsaikhan
Chief Executive Officer

B. Enkhmandakh
Chief Financial Officer

Ulaanbaatar,
Mongolia

Date: 24 March 2023

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

Tel : +976 7011 8101
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 2022, 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 significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board ("IFRS 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.

KPMG

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
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. Due to these factors, we have considered revenue recognition to be a key audit matter relevant to our audit of the consolidated financial statements.	Our audit procedures over revenue included, among others: - We tested selected controls management has in place over the sales and revenue recognition process, focusing on controls over the existence, accuracy and timing of revenue recognition. - We challenged the revenue recognition policies adopted by the Group by making inquiries of management and inspecting a sample of sales contracts to understand the delivery terms of the transactions so as to assess the Group's timing of revenue recognition with reference to the requirements of the prevailing accounting standards. - We assessed whether revenue was recognized in the appropriate accounting period and in accordance with the terms of the sales contracts by comparing a sample of sales transactions recorded around the year end with relevant underlying documents, which included goods dispatch notes or documentation indicating the customers' acknowledgment of delivery of the goods sold. - We 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 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.

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.

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

- 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 ablity to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Pyung-Sik Kong, and the General Director of the audit firm is Soyolmaa Gungaanyambuu.

KPMG AUDIT LLC

KPMG Audit LLC
Ulaanbaatar, Mongolia
24 March 2023

Signed by:	Approved by:
Soyolmaa Gungaanyambuu *General Director*	Pyung-Sik Kong *Partner*

This report is effective as at 24 March 2023, 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 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

	Notes	2022	2021
ASSETS			
Current assets			
Cash and cash equivalents	5	9,034,919	4,389,479
Prepayments and advances	7	2,318,495	2,509,612
Trade and other receivables	6	3,318,986	2,258,129
Inventories	8	128,791,463	138,030,372
Right to returned goods assets	9	17,227	-
		143,481,090	**147,187,592**
Non-current assets			
Property, plant and equipment	10	137,432,575	145,404,533
Right-of-use assets	11	731,724	1,328,307
Deferred tax assets	24.3	14,879,483	4,634,777
Other non-current assets	13	1,587,295	1,612,453
		154,631,077	**152,980,070**
Total Assets		**298,112,167**	**300,167,662**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	20,969,192	15,982,955
Contract liabilities	14.1	1,983,898	1,370,281
Refund liabilities	15	26,503	-
Short-term lease liabilities	16	777,988	914,850
Corporate income tax payable	24.2	3,683,126	111,894
Short-term borrowings	17	129,853,617	132,650,889
		157,294,324	**151,030,869**
Non-current liabilities			
Long-term lease liabilities	16	112,069	672,587
Long-term borrowings	17	95,686,234	93,407,780
Long-term other payables	18	30,984,941	25,622,107
Deferred tax liability	24.3	8,206,834	309,195
		134,990,078	**120,011,669**
Total Liabilities		**292,284,402**	**271,042,538**
Equity			
Share capital	19	780,113	780,113
Revaluation reserve	22	44,568,540	48,870,401
Foreign currency translation reserve	23	(11,436,010)	561,878
Accumulated losses		(28,084,878)	(21,087,268)
Total Equity		**5,827,765**	**29,125,124**
Total Liabilities and Equity		**298,112,167**	**300,167,662**

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

GOBI JSC AND ITS SUBSISIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSAND OF MONGOLIAN TUGRUGS)

	Notes	2022	2021
Revenue	25.1	193,427,609	144,344,329
Cost of sales	25.2	(97,766,831)	(85,543,487)
Gross profit		**95,660,778**	**58,800,842**
Other income	27.1	1,162,425	853,608
Selling and marketing expenses	25.4	(61,767,484)	(60,568,067)
Administrative expenses	25.5	(14,138,399)	(14,636,714)
Reversal of impairment loss on financial assets	31.1	49,464	16,378
Other expenses	27.2	(13,355)	(78,409)
Operating profit (loss)		**20,953,429**	**(15,612,362)**
Finance income	26	29,261	2,974,646
Finance costs	28	(30,979,282)	(25,474,286)
Loss before income tax		**(9,996,592)**	**(38,112,002)**
Income tax benefit	24	2,998,982	165,974
Loss for the year		**(6,997,610)**	**(37,946,028)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment	10, 22	-	(104,435)
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	(11,997,888)	1,923,910
Other comprehensive (loss) income for the year		**(16,299,749)**	**1,819,475**
Total comprehensive loss for the year		**(23,297,359)**	**(36,126,553)**
Losses per share			
Basic losses per share (in MNT)	21	**(8.97)**	**(48.64)**

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

GOBI JSC AND ITS SUBSISIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSAND OF MONGOLIAN TUGRUGS)

	Notes	Share capital	Revaluation reserve	Foreign currency translation reserve	Retained Earnings (Accumulated losses)	Total equity
Balance at 1 January 2021		**780,113**	**48,974,836**	**(1,362,032)**	**16,858,760**	**65,251,677**
Total comprehensive income:						
Loss for the year		-	-	-	(37,946,028)	**(37,946,028)**
Other comprehensive income	22, 23	-	(104,435)	1,923,910	-	**1,819,475**
Dividends declared	20	-	-	-	-	-
Balance at 31 December 2021		**780,113**	**48,870,401**	**561,878**	**(21,087,268)**	**29,125,124**
Balance at 1 January 2022		**780,113**	**48,870,401**	**561,878**	**(21,087,268)**	**29,125,124**
Total comprehensive income:						
Loss for the year		-	-	-	(6,997,610)	**(6,997,610)**
Other comprehensive income	22, 23	-	(4,301,861)	(11,997,888)	-	**(16,299,749)**
Dividends declared	20	-	-	-	-	-
Balance at 31 December 2022		**780,113**	**44,568,540**	**(11,436,010)**	**(28,084,878)**	**5,827,765**

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

GOBI JSC AND ITS SUBSISIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSAND OF MONGOLIAN TUGRUGS)

	Notes	2022	2021
Cash flows from operating activities			
Loss for the year		(6,997,610)	(37,946,028)
Adjustments for:			
Depreciation and amortisation of non-current assets	25.3	11,872,940	11,829,178
Income tax benefit	24	(2,998,982)	(165,974)
Interest expense	28	25,600,326	25,034,081
Interest income	26	(29,261)	(30,585)
Foreign exchange (gain) / loss		6,498,317	(4,254,445)
Reversal of impairment loss on financial assets	31.1	(49,464)	(16,378)
Impairment allowance for inventories	8	738,563	494,616
Loss on disposal of property, plant and equipment and intangible assets	27.2	13,355	78,409
Gain on disposal of right-of-use assets	27.1	-	(48,066)
		34,648,184	**(5,025,192)**
Changes in:			
Trade and other receivables		12,664,331	1,528,742
Prepayments and advances		228,243	(231,297)
Inventories		8,500,346	54,823,041
Right to returned goods assets		(17,227)	646,063
Trade and other payables		14,542,458	(4,888,790)
Refund liabilities		26,503	(1,010,634)
Contract liabilities		613,617	(171,104)
		71,206,455	**45,670,829**
Income taxes paid	24.2	(78,714)	(280,600)
Interest paid	17.2	(25,219,577)	(25,402,704)
Net cash flows from operating activities		**45,908,164**	**19,987,525**
Cash flows from investing activities			
Interest received	26	29,261	30,585
Proceeds from disposal of property, plant and equipment and intangible assets		7,664	452,393
Acquisition of property, plant and equipment	10	(2,934,998)	(418,373)
Acquisition of intangible assets	13.1	(226,018)	(276,618)
Net cash flows used in investing activities		**(3,124,091)**	**(212,013)**
Cash flows from financing activities			
Proceeds from borrowings	17.2	381,238,895	414,253,570
Proceeds from issuance of bond	17.2	7,906,980	9,877,213
Repayment of bond		(17,765,164)	-
Repayment of borrowings	17.2	(396,589,513)	(453,299,174)
Payment of lease liabilities	17.2	(931,813)	(940,160)
Dividends paid	20	(247)	(100)
Net cash flows used in financing activities		**(26,140,862)**	**(30,108,651)**
Net increase / (decrease) in cash and cash equivalents		**16,643,211**	**(10,333,139)**
Exchange difference on translating foreign operations	23	(11,997,888)	1,923,910
Effect of exchange rate differences on cash and cash equivalents		117	(37)
Cash and cash equivalents, at the beginning of the year	5	**4,389,479**	**12,798,745**
Cash and cash equivalents, at the end of the year	5	**9,034,919**	**4,389,479**

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

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(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. 50.33% of the company is owned by Tavan Bogd Trade LLC, registered in Mongolia, 34% by Hide Inter LLC, registered in Japan, and the remaining 15.67% is owned by other small shareholders. As at 31 December 2022, Gobi JSC had a total of 23,172 shareholders.

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 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 24 March 2023.

2. Summary of significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared and presented in accordance with IFRS 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.

2.2.1 Going concern

There are complications in China due to the Covid-19 epidemic and the geopolitical tensions arising in the neighbor countries caused by the increase in currency exchange rates, delays in foreign transport, and limited conditions at the borders make it very difficult to maintain normal business operations in 2020 to 2022.

The total sales revenue of Gobi JSC in 2022 was MNT 193.4 billion, and it showed 34% growth from the previous year. Among them, domestic market sales increased by MNT 93.5 billion (40%), European market sales by 32.5 billion (29%), American market sales by MNT 13.7 billion (46%), and Chinese market sales by MNT 6.1 billion (40%) compared to the previous year respectively. Also, the number of online shopping users increased 2.6 times compared to last year as a result of improving website speed and visualization, updating product descriptions and images to make them more accessible to users.

In 2022, Gobi JSC's net operating cash flow was MNT 46 billion, and it is 116% higher than the previous year. The Company was able to reduce its total loans by MNT 26 billion, which was released by the cash flow of net financial activities.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.2 Basis of preparation (continued)

2.2.1 Going concern (continued)

Within the framework of the policy to support the wool and cashmere sector implemented by the Bank of Mongolia in 2022, a concessional loan of MNT 10 billion for 2 year tenor with an interest rate of 3% based on amendment of the credit line agreement madewith Khan Bank and MNT 20 billion for 3 year tenor with an interest rate of 11% from Golomt Bank from the repo financing loan issued by the Bank of Mongolia.

By Resolution No. 264 of the Government of Mongolia dated 5 July 2022, 2023-2024 was declared as the "Visit Mongolia Year". Within this framework, Mongolia plans to receive 1 million foreign tourists in 2023. It is planned to increase by 3.5 times compared to the figure of 290 thousand foreign tourists received in 2022. Following the fact that China stopped its "Zero Covid" policy and opened its borders from 8 January 2023, there is an opportunity for Chinese touriststravel to Mongolia. It gives the Company an opportunity to increase domestic sales. Also, as a result of the Product Lifecycle Management system implementation agreement signed with Centrics Software, the product development process is planned to be improved and the number of domestic and external users will increase and sales increase will follow. In this regard, it is planned to use Golomt Bank and Xac Bank credit lines for the financing of working capital necessary for the increase of production volume and productivity of the factory.

On 15 February 2023, Gobi JSC received from its ultimate parent company, Tavan Bogd Trade LLC, a letter confirming that Tavan Bogd Trade 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 2022 financial statements. Tavan Bogd Trade LLC also confirmed to not seek, recall or demand repayment of amounts owed to the entities within the Tavan Bogd Trade 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 realability 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:

- 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; and
- 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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.3 Basis of consolidation (continued)

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 isattributed 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.

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 the cost of goods or services related to the prepayments are expected to be incurred within one year. 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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

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 a sset 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 statedin 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, arestated 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'srevaluation 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 recognise d 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:

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

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.6 Property, plant and equipment (continued)

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 deprecation 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).

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 recognise.

2. Summary of significant accounting policies (continued)

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 IFRS15. 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.

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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.1 Classification of financial assets (continued)

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 measuredat 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 isrecognised by applying the effective interest rate to the amortised cost of the finical 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 be en assessed individually with outstanding significant balances not secured and exceeding MNT 400 million, the remaining balances are grouped based on past due analysis.

The expected credit losses on these financiala ssets 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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.2 Impairment of financial assets (continued)

(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.

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 tha the criteria are capable of identifying a significant increase in credit risk before the amount becomes past due.

2. Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.2 Impairment of financial assets (continued)

(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.

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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant 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)

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.

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

(iii) Retained earnings

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

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.11 Financial liabilities and equity (continued)

2.11.2 Equity instruments (continued)

(iv) Contribution by owners of the Group

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

(v) Foreign currency translation reserve

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

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.

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.

2. Summary of significant accounting policies (continued)

2.12 Revenue recognition (continued)

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:

a) Sale of goods;
b) Service income; and
c) 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.

It is the Group's policy to sell its products to the retail customer with a right of return within 7 days andhe 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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.12 Revenue recognition (continued)

2.12.2 Service income (continued)

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.

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. Summary of significant accounting policies (continued)

2.13 Leases (continued)

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.

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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.13 Leases (continued)

2.13.2 The Group as a lessee (continued)

Lease liabilities (continued)

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.

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 leases, such incentives are recognised as a liability.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.13 Leases (continued)

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 recognised 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 recognised 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.

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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.17 Employee benefits

Short-term employee benefits

Short-term employee benefits areexpensed 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 thata 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.

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. Summary of significant accounting policies (continued)

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; and
- 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.

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 recognises 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.

2. Summary of significant accounting policies (continued)

2.23 Taxation (continued)

2.23.2 Deferred tax (continued)

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.

2.23.3 Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss,e xcept 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.

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.

3. Critical accounting judgements and key sources of estimation uncertainty

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.

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 17,982,615 thousand (MNT 17,959,888 thousand at 31 December 2021) 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 2022, the revenue amount to MNT 193,427,609 thousand net of returns and discounts for an amount of MNT 12,447,074 thousand (31 December 2021 the revenue amount to MNT 144,344,329 thousand net of returns and discounts for an amount of MNT 1,113,597 thousand).

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

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 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 (31 December 2021 the carrying amount of trade and other receivables is MNT 2,258,129 thousand, net of loss allowance of MNT 1,843,519 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 2022, the carrying amount of inventories is MNT 128,791,463 thousand net of provision for inventories of MNT 2,357,493 thousand (31 December 2021: the carrying amount of inventories is MNT 138,030,372 thousand net of provision for inventories of MNT 1,791,496 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 ifnecessary, 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.

(IN THOUSANDS OF MONGOLIAN TUGRUGS)

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 theextent 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.

3.2.6 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 14,879,483 thousand and MNT 4,634,777 thousand as at 31 December 2022 and 2021, respectively.

Total deferred tax liabilities recognised in the Group's consolidated statement of financial position amounted to MNT 8,206,834 thousand and MNT 309,195 thousand as at 31 December 2022 and 2021, respectively, see Note 2.23 and Note 24.3.

4. Application of new and amendments to IFRS Standards

4.1 New standards and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ('IASB') that are mandatorily effective for an accounting periods that begins on or after 1 January 2022.

Effective for annual periods beginning on or after	New Standards or Amendments
1 January 2022	• Onerous Contracts - Cost of Fulfilling a Contract - Amendments to IAS 37 • Annual Improvements to IFRS Standards 2018-2020 • Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16 • Reference to the Conceptual Framework - Amendments to IFRS 3

The application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

4. Application of new and amendments to IFRS Standards (continued)

4.2 New standards and amendments to IFRSs that have been issued but are not yet effective

The new and amendments to IFRSs and Interpretations 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 for annual periods beginning or after	New Standards or Amendments
1 January 2023	• 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)
1 January 2024	• Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) • Classification of Liabilities as Current or Non-current - Amendments to IAS 1
Available for optional adoption / effective date deferred indefinitely	• Sales or Contribution of Assets between the Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

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

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

5. Cash and cash equivalents

	2022	2021
Cash on hand	40,544	12,258
Cash in bank	8,994,375	4,377,221
	9,034,919	**4,389,479**

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

6. Trade and other receivables

	2022	2021
Trade receivables	2,905,206	2,289,402
Loss allowance	(1,640,363)	(1,698,935)
	1,264,843	**590,467**
Receivables from related parties (see Note 29.2)	17,222	30,222
Other receivables	2,167,633	1,782,024
Loss allowance	(130,712)	(144,584)
	3,318,986	**2,258,129**

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. TheGroup 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

	2022	2021
VAT receivables	1,394,152	930,707
Receivables from employees	495,474	468,918
Other receivables	278,007	382,399
	2,167,633	**1,782,024**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

7. Prepayment and advances

	2022	2021
Advance payments to vendors	1,100,746	1,383,448
Prepaid expense	1,217,749	1,126,164
	2,318,495	**2,509,612**

8. Inventories

	2022	2021
Raw materials	39,237,700	29,398,700
Work in progress	13,904,765	14,277,420
Finished goods	64,176,011	84,336,801
Consumables	10,245,875	11,656,100
Goods in transit	3,584,605	152,847
	131,148,956	**139,821,868**
Allowance for obsolete and slow moving items	(2,357,493)	(1,791,496)
	128,791,463	**138,030,372**

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 101.5 billion (31 December 2021: MNT 83.6 billion).

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

	2022	2021
Balance at beginning of the year	1,791,496	1,766,807
Addition to allowance for obsolete and slow-moving items	738,563	494,616
Written-off	(172,566)	(469,927)
Balance at the end of the year	**2,357,493**	**1,791,496**

Inventories with a carrying amount of MNT 121.7 billion (2021: MNT 151.7 billion) has been pledged as collateral for borrowings.

9. Right to returned goods assets

	2022	2021
Right to returned goods assets	17,227	-
	17,227	**-**

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

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

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 2021	**17,959,888**	**79,489,188**	**89,208,462**	**5,977,193**	**2,534,743**	**18,353,735**	**622,574**	**214,145,783**
Additions	-	-	154,131	216,303	-	47,939	-	418,373
Disposals	-	-	(277,279)	(454,571)	(831,418)	-	-	(1,563,268)
Transfers to inventories	-	-	(194,925)	(41,066)	-	(12,531)	-	(248,522)
Transfers within PPE	-	39,887	9,107,959	14,401	-	(9,162,247)	-	-
31 December 2021	**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**
Accumulated depreciation:								
1 January 2021	**-**	**6,673,087**	**46,827,481**	**2,974,111**	**1,123,209**	**-**	**304,571**	**57,902,459**
Depreciation charge for the year	-	2,378,437	6,884,947	884,825	243,992	-	303,739	10,695,940
Disposals	-	-	(274,872)	(395,567)	(471,945)	-	-	(1,142,384)
Transfers to inventories	-	-	(82,602)	(25,580)	-	-	-	(108,182)
31 December 2021	**-**	**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**
Carrying amount:								
31 December 2021	**17,959,888**	**70,477,551**	**44,643,394**	**2,274,471**	**808,069**	**9,226,896**	**14,264**	**145,404,533**
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**

The construction in progress pertains to ongoing project for factory building and plant and equipment under installation.

(IN THOUSANDS OF MONGOLIAN TUGRUGS)

10. Property, plant and equipment (continued)

10.1 Assets pledged as security

As at 31 December 2022, property, plant and equipment with a total carrying amount of MNT 134.8 billion (31 December 2021: total carrying amount of MNT 141.3 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 2022		31 December 2021	
	Fair value	**Level 3**	**Fair value**	**Level 3**
Land rights	17,982,615	17,982,615	17,959,888	17,959,888
Buildings	69,737,169	69,737,169	70,477,551	70,477,551
	87,719,784	**87,719,784**	**88,437,439**	**88,437,439**

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

Type	**Valuation techniques**
Buildings	*Market comparison technique and cost technique:* 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	*Cost technique:* 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 measurements as at 30 September 2020 categorised into			
	Fair value impact	*Level 1*	*Level 2*	*Level 3*
Fair value measurement				
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 2022 and did not identify material adjustment from the carrying value as at 31 December 2022, therefore in accordance with IAS 16, the value was not adjusted.

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

	2022	**2021**
Land rights	2,613,998	2,613,998
Buildings	49,943,903	52,117,738
	52,557,901	**54,731,736**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

10. Property, plant and equipment (continued)

10.3 Fully depreciated property, plant and equipment

	2022	2021
Cost	36,454,214	28,492,345

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

Charged to profit or loss:

	2022	2021
Depreciation of property, plant and equipment	1,920,898	3,925,102
Depreciation of right-of-use assets (Note 11)	831,016	976,411
Amortisation of intangible assets (Note 13.1)	197,611	156,827
	2,949,525	**5,058,340**

Charged cost to inventories:

During the year, Group recognised depreciation expenses amounting to MNT 8,923,415 thousand (31 December 2021: 6,770,838 thousand) in the cost of inventories.

11. Right-of-use assets

	2022	2021
Cost:		
At 1 January	3,428,914	4,033,897
Additions	234,433	143,572
Disposals	(387,456)	(748,555)
At 31 December	**3,275,891**	**3,428,914**
Accumulated depreciation:		
At 1 January	2,100,607	1,402,793
Charged for the year	831,016	976,411
Disposals	(387,456)	(278,597)
At 31 December	**2,544,167**	**2,100,607**
Carrying amount:		
At 31 December	**731,724**	**1,328,307**

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 4 lease agreements that are recognised in accordance with IFRS 16 (4 lease agreements in 2021) and these leases contain a termination option.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

11. Right-of-use assets (continued)

11.1 Leases as lessee (continued)

The maturity of lease liabilities is presented in Note 16.

i. Right-of-use assets

	2022	2021
At 1 January	1,328,307	2,631,104
Additions	234,433	143,572
Disposals	(387,456)	(748,555)
Depreciation charge for the year	(831,016)	(976,411)
Depreciation related to disposals	387,456	278,597
At 31 December	**731,724**	**1,328,307**

ii. Amounts recognised in profit or loss

	2022	2021
Depreciation expense on right-of-use assets	831,016	976,411
Interest expense on lease liabilities (Note 28)	183,245	363,392
Expenses relating to short-term lease (Note 25.4)	206,865	564,802

iii. Amounts recognised in statement of cash flows

	2022	2021
Total cash outflow for leases	931,813	940,160

11.2 Leases as lessor

As at 31 December 2022, and 2021, 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 2022 was MNT 369,439 thousand (2021: MNT 255,979 thousand).

Future minimum lease receivables under non-cancellable operating leases as at 31 December 2022 are as follows:

	2022	2021
Less than one year	274,382	247,240
One to two years	-	-
Two to three years	-	-
Three to four years	-	-
Four to five years	-	-
More than five years	-	-
	274,382	**247,240**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

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 2022	2021
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%	-

* On 11 March 2022, the Group established a new wholly owned subsidiary, Gobi Cashmere UK , in United Kingdom.

Financial information of subsidiaries

Summary of financial information of subsidiaries as at and for the period 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)

Summary of financial information of subsidiaries as at and for the period ended 31 December 2021 was as follows:

2021	Total assets	Total liabilities	Revenue	Profit (loss)
Gobi Cashmere Europe GmbH	16,757,648	52,890,175	27,080,144	(21,534,846)
Gobi Cashmere Inner Mongolia Co. Ltd	10,681,151	15,798,518	4,389,019	(3,706,184)
Goyo LLC	8,928,951	55,531	-	30,428
Gobi Cashmere USA Corp	8,795,758	19,796,655	9,393,206	(7,905,631)

13. Other non-current assets

	2022	2021
Intangible assets	448,992	437,024
Deposit placed for leased stores	590,477	557,284
Prepayments	547,826	618,145
	1,587,295	**1,612,453**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

13. Other non-current assets (continued)

13.1 Intangible assets

	2022	2021
Cost:		
At 1 January	1,381,356	1,225,490
Additions	226,018	276,618
Reclassification from property, plant and equipment	6,929	-
Disposals	(818)	(120,752)
At 31 December	**1,613,485**	**1,381,356**
Accumulated amortisation:		
At 1 January	944,332	798,339
Disposals	-	(10,834)
Amortisation for the year	197,611	156,827
Reclassification from property, plant and equipment	6,929	-
Effect of movements in exchange rate	15,621	-
At 31 December	**1,164,493**	**944,332**
Carrying amount:		
At 31 December	**448,992**	**437,024**

Intangible assets comprise of accounting software with a net carrying amount of MNT 226,689 thousand (2021: MNT 222,378 thousand) and trademarks with a net carrying amount of MNT222, 303 thousand (2021: MNT 214,646 thousand).

14. Trade and other payables

	2022	2021
Trade payables	13,906,484	869,894
Related party payables (Note 29.2)	47,583	186,325
Salary payables	1,710,470	1,292,523
Other taxes payables (excluding corporate income tax payables)	3,922,058	2,065,186
Dividend payables (Note 20)	166,686	166,933
Bond payables	-	9,877,213
Other payables	1,215,911	1,524,881
	20,969,192	**15,982,955**

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 9 December 2021, Gobi JSC issued a closed bond on the Mongolian Over the Counter (OTC) market for the purpose of refinancing working capital of MNT 10 billion with a maturity of 12 months and an annual interest rate of 9%. The bond interest was repayable on a semi-annual basis with the principal due on maturity. On 9 December 2022, the bond together with its interest were fully repaid.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

14. Trade and other payables (continued)

14.1 Contract liabilities

	2022	2021
Amounts received in advance-shown under current liabilities	1,983,898	1,370,281
	1,983,898	**1,370,281**

Contract liabilities as at 31 December 2022 are expected to be recognised as revenue by 31 December 2023.

15. Refund liabilities

	2022	2021
Arising from rights of return	26,503	-
	26,503	**-**

The refund liabilities relate to customer's right to return products under the sales agreement. At the point of sale, a refund liability and a corresponding adjustment to revenue are recognised for those products' expected return.

16. Lease liabilities

	2022	2021
Maturity analysis:		
Within one year	837,663	1,092,584
More than one year but not more than two years	118,446	702,823
More than two years but not more than five years	-	6,080
	956,109	**1,801,487**
Less: unearned interest	(66,052)	(214,050)
	890,057	**1,587,437**

	2022	2021
Analysed as:		
Current	777,988	914,850
Non-current	112,069	672,587
	890,057	**1,587,437**

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

17. Borrowings

	2022	2021
Short-term:		
Short-term borrowings	127,762,048	130,751,028
Accrued interest payables	2,091,569	1,899,861
Total short-term borrowings	**129,853,617**	**132,650,889**
Long-term:		
Long-term borrowings	95,686,234	93,407,780
Total long-term borrowings	**95,686,234**	**93,407,780**
Total	**225,539,851**	**226,058,669**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

17. Borrowings (continued)

Terms and conditions of outstanding loans were as follows:

				31 December 2022		31 December 2021	
Party	**Cur-rency**	**Nominal interest rate**	**Loan maturity**	**Foreign currency (thousands)**	**Carrying amount**	**Foreign currency (thousands)**	**Carrying amount**
Golomt Bank (Credit line) (i)	USD	7.20%	2023	-	-	3,400	9,685,920
Golomt Bank (Long term) (i)	MNT	11.00%	2025	-	20,000,000	-	-
European Bank for Reconstruction and Development (EBRD) (Tranche 1A) (ii)	USD	6.79% (2021: 5.3% + 6M LIBOR)	2024	1,818	6,262,910	2,545	7,251,491
European Bank for Reconstruction and Development (Tranche 1B) (ii)	USD	7.49% (2021: 6.0% + 6M LIBOR)	2024	2,727	9,394,364	3,818	10,877,236
European Bank for Reconstruction and Development (Tranche 2) (ii)	USD	6.93% (2021: 5.3% + 6M LIBOR)	2024	3,273	11,273,235	4,364	12,431,128
Khan Bank (Credit line) (iii)	MNT	12.60%	2024	-	-	-	-
Khan Bank (iii)	MNT	3.00%	2024	-	10,000,000	-	-
Development Bank of Mongolia (iv)	MNT	12.00%	2023	-	42,900,000	-	42,900,000
Development Bank of Mongolia (iv)	MNT	11.50% (2021: 3.00%)	2022	-	33,333,333	-	33,333,333
Xac Bank (Credit line) (v)	MNT	13.20% (2021: 14.40%)	2023	-	9,566,000	-	10,000,000
Trade and Development Bank of Mongolia (ADB) (vi)	MNT	8.00%	2022	-	-	-	990,000
International Investment Bank (IIB) (vii)	EUR	4.25%	2027	8,000	29,352,160	16,000	51,567,840
International Investment Bank (vii)	EUR	5.25%	2027	14,000	51,366,280	14,000	45,121,860
Total					**223,448,282**		**224,158,808**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

17. Borrowings (continued)

17.1 Summary of borrowing arrangements

(i) Borrowings from Golomt Bank as at 31 December 2022 and 2021 are as follows:

- On 19 March 2018, the Group obtained a multi-currency credit line from Golomt Bank, 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.

- On 19 March 2020, following agreement was extended for 12 months. On 19 March 2021, the loan contract was amended extending the tenor until 19 March 2023, decreasing the credit limit to MNT 60 billion and decreased the MNT and USD interest rates to 13.5% (with interest rate hierarchyremoved) and 7.2%, respectively. The Group pledged its plant and equipment and inventories, releasing future cash revenue, account receivables and sales receivables from the pledge.

- On 2 May 2022, the Group obtained a new loan of 20 billion MNT as a long-term repo financing with an interest rate of 11% for a period of 36 months.

(ii) Borrowings from EBRD as at 31 December 2022 and 2021 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 repayment of the loan will be made until 2024 and will be repaid according to the schedule. The Group's buildings, factory equipment and inventories are pledged against the loan.

- On 24 December 2021, the loan agreement was amended, and the interest rates of LIBOR+5.3% and, LIBOR+6% per annumwere fixed to 6.79%, 7.49%, and 6.93% per Tranche 1A, Tranche 1B and Tranche 2 each. The fixed interest rate conditions of the loans were effectively applied from 18 January 2022. As at 31 December 2022, a total amount of USD 8.2 million was repaid from principal amount together with its interest payment.

(iii) Borrowings from Khan Bank as at 31 December 2022 and 2021 are as follows:

- On 18 November 2019, Gobi JSC was added onto the credit line agreement made with Tavan Bogd Trade LLC for the purpose of financing working capital for Tavan Bogd Trade LLC and its subsidiaries. On 2 Nov 2021, the loan interest rate was reduced to 12.6% in MNT and 7% in USD. On 3 August 2022, the loan amount was amended into MNT 53 billion.

- On 13 May 2022, the credit line agreement was amended, andGobi JSC obtained a long -term loan of MNT 10 billion with interest rate of 3% per annum, 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.

(iv) Borrowings from Development Bank of Mongolia (DBM)as at 31 December 2022 and 2021 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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

17. Borrowings (continued)

17.1 Summary of borrowing arrangements (continued)

(iv) Borrowings from Development Bank of Mongolia as at 31 December 2022 and 2021 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 contract was made, increasing the interest rate to 11.5% and extending the maturity 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 DBM. The Group is in discussion with DBM for extension of the loan and it is agreed to extend maturity date by DBM. Currently, agreement for the updated terms is in progress.

(v) Borrowings from Xac Bank as at 31 December 2022 and 2021 are as follows:

- On 16 October 2020, the Group obtained a credit line for 24 months amounting to MNT 15 billion bearing an interest rate of 14.4%. The Group is allowed to payback the outstanding amount before or by October 2022 under the contract. The Group repaid the credit line as at 30 July 2021.

- On 10 December 2021, the Group, Tavan Bogd Trade LLC and Tavan Bogd Property LLC entered into a 24-month credit line agreement with Xac Bank of 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% to 15.6%. The terms of this agreement will be effective from 1 January 2023.

(vi) Borrowings from Asian Development Bank financed through Trade and Development Bank of Mongolia as at 31 December 2022 and 2021 are as follows:

- On 21 December 2016, the Group obtained a working capital financing loan from Trade and Development Bank with a duration of 60 months amounting to MNT 6 billion with an interest rate of 8% per annum. On 16 June 2021, the loan was amended extending its maturity date to 26 March 2022 with monthly payments of MNT 330 million. The Group pledged its land, buildings, and inventories.

- In 2022, borrowings from Asian Development Bank were fully repaid.

(vii) The borrowings from International Investment Bank as at 31 December 2022 and 2021 are as follows:

- On 15 May 2020, the Group entered into a loan agreement total amounted 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 be matured on 15 May 2027 and the EUR 16 million loan will be matured 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 of "Facility B" is scheduled to be repaid in May 2027.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

17. Borrowings (continued)

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 18&29)	Bond payables (Note 14)	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	21,735,036	1,048,398	2,219,369	414,278	183,245	-	25,600,326
Interest paid	(21,375,657)	(1,027,028)	(2,219,369)	(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**

	Borrowings excluding related parties (Note 17)	Borrowings from related parties (Note 17&29)	Other long term payable due to related parties (Note 18&29)	Bond payables (Note 14)	Lease liabilities (Note 16)	Dividend payable (Note 20)	Total
At 1 January 2021	264,172,594	8,000,000	14,230,453	-	2,902,049	167,033	289,472,129
Proceeds from borrowings	333,533,381	80,720,189	-	-	-	-	414,253,570
Proceeds from issuance of bonds	-	-	-	9,877,213	-	-	9,877,213
Repayment of borrowings	(364,578,985)	(88,720,189)	-	-	-	-	(453,299,174)
Payment of lease liabilities	-	-	-	-	(940,160)	-	(940,160)
Reclassification from related party payables (Note 14)	-	-	11,395,400	-	-	-	11,395,400
Dividends paid	-	-	-	-	-	(100)	(100)
Effect of foreign exchange rate differences	(6,699,698)	-	(3,746)	-	-	-	(6,703,444)
Other changes	-	-	-	-	(374,452)	-	(374,452)
Interest expense	20,124,594	2,512,953	2,033,142	-	363,392	-	25,034,081
Interest paid	(20,493,217)	(2,512,953)	(2,033,142)	-	(363,392)	-	(25,402,704)
At 31 December 2021	**226,058,669**	**-**	**25,622,107**	**9,877,213**	**1,587,437**	**166,933**	**263,312,359**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

17. Borrowings (continued)

17.3 Breach of loan covenants and waivers

(a) The Group has a secured bank loan from EBRD with a carrying amount of MNT 26,930,509 thousand at 31 December 2022 (2021: MNT 30,559,855 thousand). The loan is repayable in tranches within upcoming 2 years. However, the loan contained a covenant stating that at the end of each quarter current ratio cannot exceed 1.1, financial debt to EBITDA ratio should be within 3, and debt service coverage ratio cannot exceed 1.6.

The Group has breached above financial ratio covenants as at 31 December 2022, and was not able to obtain a waiver from EBRD. Accordingly, it is classified as short-term borrowings.

(b) The Group has a secured bank loan from IIB with a carrying amount of MNT 80,718,440 thousand at 31 December 2022 (2021: MNT 96,689,700 thousand). The loan is repayable in tranches within5 years. However, the loan contained a covenants such as at the end of each quarter interest cover for the period to be not less than 2:1, leverage in respect of any relevant period to be not exceed 3.5:1.

The Group has breached above financial ratio covenants as at the 31 December 2022 However, management obtained a waiver from IIB on 30 December 2022. Accordingly, the loan was not payable on demand as at 31 December 2022.

18. Long-term other payables

	2022	**2021**
Tok Tok LLC	4,209	-
Tavan Bogd Trade LLC	30,980,732	25,622,107
	30,984,941	**25,622,107**

The terms of advances from Tavan Bogd Trade LLC with an interest rate of 7.8% per annum (previously 8% per annum) were amended on 1 September 2021 extending maturity until 24 May 2024. On 1 December 2022, the agreement with Tavan Bogd Trade LLC was amendedto set the repayment schedule with instalment payments from 30 September 2024 to 24 May 2025.

19. Share capital

	Number of shares		**Share capital**	
	2022	**2021**	**2022**	**2021**
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**

Share capital as at 31 December 2022 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 2021: 780,112,500 common shares authorised and issued at par value of MNT 1.00).

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

20. Dividend

	2022	2021
Balance at beginning of year	166,933	167,033
Dividends declared	-	-
Dividends paid	(247)	(100)
Balance at end of year	**166,686**	**166,933**

As per Resolution No. 03 of the Board of Directors dated 14 February 2022, no dividends were declared in 2022.

21. Losses per share

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

	2022	2021
Loss for the year	(6,997,610)	(37,946,028)
Weighted average number of ordinary shares outstanding	780,112,500	780,112,500
Losses per share	**(8.97)**	**(48.64)**

Basic losses per share are calculated by dividing the Group's loss by the weighted averagenumber 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

	2022	2021
Balance at beginning of year	48,870,401	48,974,836
Tax impact on revaluation of property, plant and equipment	(4,301,861)	-
Revaluation deficit	-	(104,435)
Balance at end of year	**44,568,540**	**48,870,401**

23. Foreign currency translation reserve

	2022	2021
Balance at beginning of year	561,878	(1,362,032)
Exchange differences arising on translating the net assets of foreign subsidiaries	(11,997,888)	1,923,910
Balance at end of year	**(11,436,010)**	**561,878**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

24. Income tax expense (benefit)

	2022	2021
Current tax:		
Current tax expense in respect of the current year	3,649,946	86,126
Deferred tax:		
Deferred tax benefit recognised in the current year	(6,648,928)	(252,100)
	(2,998,982)	**(165,974)**

24.1 Current tax

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2022	2021
Accounting loss before taxation	(9,996,592)	(38,112,002)
Theoretical tax credit at statutory income tax rate of 25% (2021: 10%)	(2,499,148)	(3,811,200)
Effect of expenses that are non-deductible	836,322	560,984
Effect of non-taxable income	(186,577)	(118,373)
Tax under the special tax rate	50,639	86,126
Current year tax losses for which no deferred tax asset is recognised	5,214,018	-
Recognition of previously unrecognised taxable temporary differences	452,248	1,120,761
Change in estimates related to prior year	(6,866,484)	-
Unrecognised deductible temporary differences	-	1,995,728
Income tax expense	**(2,998,982)**	**(165,974)**

According to the Mongolian Corporate Income Tax Law, an annual taxable income of up to MNT 6 billion (MNT 6 billion in 2021) will be taxed at 10% (10% in 2021), and an annual taxable income of more than MNT 6 billion will be taxed at an additional 25% (25% in 2021).

The Mongolian Tax Administration has been implementing the revised set of laws since 2020using the balance sheet method to calculate the temporary difference between deferred tax assets and liabilities under IAS 12.

The Group had an accrued tax loss of MNT 13,728,610 thousand in 2021 that could be deducted from future profit during the reporting year. This includes deferred tax assets. The tax loss incurred in 2021 can be transferred to 2025.

24.2 Current tax (assets) and liabilities

	2022	2021
Corporate income tax receivable	-	-
Corporate income tax payable	3,683,126	111,894
	3,683,126	**111,894**

	2022	2021
Balance at begining of the year	111,894	(219,045)
Current tax expense for the year	3,649,946	86,126
Payments for income tax	(78,714)	(280,600)
Withholding tax expense	-	525,413
Corporate income tax payable	**3,683,126**	**111,894**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

24. Income tax expense (benefit) (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:

2022	**Opening balance**	**Recognised in profit (loss)**	**Recognised in OCI**	**Closing balance**
Deferred tax assets 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
Deferred tax assets	**4,634,777**	**10,244,706**	**-**	**14,879,483**
Deferred tax 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)
Deferred tax liabilities	**(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**

2021	**Opening balance**	**Recognised in profit (loss)**	**Closing balance**
Deferred tax assets in relation to:			
Borrowings	2,386,661	(1,929,488)	457,173
Unused tax losses	2,804,743	1,372,861	4,177,604
Deferred tax assets	**5,191,404**	**(556,627)**	**4,634,777**
Deferred tax liabilities in relation to:			
Financial assets	(1,138,192)	1,011,408	(126,784)
Property, plant and equipment	20,270	(202,681)	(182,411)
Deferred tax liabilities	**(1,117,922)**	**808,727**	**(309,195)**
Net position	**4,073,482**	**252,100**	**4,325,582**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

25. Revenue and expenses

25.1 Revenue

	2022	2021
Sales of knitwear	125,508,836	95,831,241
Sales of sewn	32,942,210	28,757,779
Sales of woven	30,182,595	14,979,473
Service income	1,612,336	1,168,015
Other	3,181,632	3,607,821
	193,427,609	**144,344,329**

25.2 Cost of sales

	2022	2021
Sales of knitwear	59,838,283	51,940,605
Sales of sewn	17,799,533	20,018,053
Sales of woven	15,914,629	8,686,002
Cost of service	1,159,957	858,003
Other	3,054,429	4,040,824
	97,766,831	**85,543,487**

25.3 Expense by nature

	2022	2021
Changes in inventories	8,672,912	55,292,968
Raw materials and consumables	53,873,855	8,180,268
Wages and remuneration	38,562,935	29,200,030
Depreciation and amortisation expenses	11,872,940	11,829,178
Marketing and advertising	28,876,128	33,122,725
Supplies and consumables	2,043,652	1,428,501
Professional service fees	5,866,382	7,528,964
Selling expenses	2,918,267	2,930,567
Transportation	3,241,126	1,707,263
Others	17,744,517	9,527,804
Total cost of sales, selling and marketing, and administrative expenses	**173,672,714**	**160,748,268**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

25. Revenue and expenses (continued)

25.4 Selling and marketing expenses

	2022	**2021**
Marketing and advertising	28,876,128	33,122,725
Wages and remuneration	11,230,522	9,104,946
Professional service fees	5,325,812	7,086,084
Transportation	3,241,126	1,707,263
Selling expenses	2,918,267	2,930,567
Customer promotion expenses	2,219,053	116,905
Supplies and consumables	1,983,317	1,380,110
Depreciation and amortisation expenses	1,818,572	2,297,315
Other fees and taxes	1,213,128	357,626
Management fees	539,001	539,001
Business trips	433,242	49,472
Labour safety expenses	396,996	251,501
Utilities	361,341	94,658
Repair and maintenance	262,832	153,590
Insurance	243,022	380,116
Short-term and low value leases	206,865	564,802
Communication expenses	120,015	105,538
Cleaning services	115,363	84,437
Fuel expenses	70,969	24,309
HR and related costs	32,880	245
Other expenses	159,033	216,857
Total selling and marketing expenses	**61,767,484**	**60,568,067**

25.5 Administrative expenses

	2022	**2021**
Wages and remuneration	7,350,466	7,505,012
Depreciation and amortisation expenses	1,130,953	2,761,025
Labour safety expenses	1,181,851	934,095
Security expenses	765,969	529,394
Professional service fees	540,570	442,880
Repair and maintenance	526,852	222,039
Other fees and taxes	522,299	821,753
HR and related costs	268,137	469,030
Utilities	188,573	29,895
Fuel expenses	97,309	61,042
Communication expenses	70,024	78,496
Insurance	65,489	75,109
Business trips	64,588	16,536
Supplies and consumables	60,335	48,391
Bank charges	45,185	21,665
Impairment loss on inventories	506,840	24,689
Other expenses	752,959	595,663
Total administrative expenses	**14,138,399**	**14,636,714**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

26. Finance income

	2022	2021
Interest income	29,261	30,585
Net foreign exchange gain	-	2,944,061
	29,261	**2,974,646**

27. Other income and expenses

27.1 Other income

	2022	2021
Rental and other income	1,162,425	805,542
Gain on disposal of right-of-use assets	-	48,066
	1,162,425	**853,608**

27.2 Other expenses

	2022	2021
Net loss on disposal of property, plant and equipment and intangible assets	(13,355)	(78,409)
	(13,355)	**(78,409)**

28. Finance costs

	2022	2021
Interest expense on borrowings (Note 17.2)	22,783,434	22,637,547
Interest expense on bond	414,278	-
Net foreign exchange loss	4,978,856	-
Interest expense on other payables (Note 17.2)	2,219,369	2,033,142
Interest expense on lease liabilities (Note 11)	183,245	363,392
Other finance costs	400,100	440,205
	30,979,282	**25,474,286**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

29. Balances and transactions with related parties

29.1 Related parties

Related party	Relationships
Shareholders	
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

29.2 Balances with related parties

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

	2022	2021
Receivables from related parties (Note 6)		
Other related parties	17,222	30,222
Payable to related parties /Short-term/ (Note 14)		
Ultimate controlling party	-	185,445
Fellow subsidiaries	42,268	771
Other related parties	5,316	109
Payable to related parties /Long-term/ (Note 18)		
Ultimate controlling party	30,980,732	25,622,107
Borrowings from related parties (Note 17)		
Other related parties	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 Trade LLC on credit terms. Please see details in Note 18. The Group has not pledged any assets on the agreement.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

29. Balances and transactions with related parties (continued)

29.3 Transactions with related parties

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

	2022	2021
Purchases made from ultimate controlling party	1,356,559	1,256,062
Sales made to ultimate controlling party	7,789	39,134
Rental income from ultimate controlling party	22,090	-
Interest expense to ultimate controlling party	2,219,369	2,032,887

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

	2022	2021
Advances received from other related parties (Note 17.2)	105,506,586	41,483,084
Payment of advances received from other related parties (Note 17.2)	105,506,586	41,483,084
Purchases made from other related parties	1,202,395	454,406
Purchase made from other related parties	28,918	42,641
Sales made to other related parties	134,599	142,468
Rental income from other related parties	347,349	255,979
Interest expense to other related parties	853,494	272,418

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

	2022	2021
Advances received from Khan Bank (Note 17.2)	19,310,000	39,237,105
Payment of advances received from Khan Bank (Note 17.2)	9,310,000	47,237,105
Sales made to Khan Bank	22,002	1,115,012
Purchase made from Khan Bank	1,302,303	-
Interest expense to Khan Bank	194,904	207,648

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:

	2022	2021
The total amount of salaries and bonuses of the key management personnel	1,762,116	1,546,153

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

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 2022 (none in 2021), the Group does not have any contingent liabilities and commitments.

30.1 Contingent liabilities

Guarantees commit the Bank to make payments on behalf of customers 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. No material losses are anticipated as a result of these transactions.

30.2 Commitments

Commitments means to extend credit represent contractual commitments to make loans 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.

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 wave 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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

31. Financial instruments and financial risk management objectives (continued)

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 ofthe 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.

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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

31. Financial instruments and financial risk management objectives (continued)

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:

	2022	2021
Cash in bank	8,994,375	4,377,221
Deposit placed for lease stores	590,477	557,284
Trade and other receivables*	1,924,834	1,327,422
	11,509,686	**6,261,927**

*excludes taxes receivable of MNT 1,394,152 thousand in 2022 and MNT 930,707 thousand in 2021.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

31. Financial instruments and financial risk management objectives (continued)

31.1 Credit risk management (continued)

Exposure to credit risk (continued)

Reversal of impairment loss on financial assets recognised in profit or loss were as follows:

	2022	2021
Impairment loss on trade and other receivables	(3,478)	(110,920)
Impairment loss on bank balances	-	-
Reversal of impairment loss on trade and other receivables	52,942	127,298
	49,464	**16,378**

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

	2022	2021
Domestic	1,012,147	973,112
Foreign	912,687	354,310
	1,924,834	**1,327,422**

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 2022 and 2021, 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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

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 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)	99.69%
	3,695,909	**(1,771,075)**	**47.92%**

31 December 2021	Gross carrying amount	Loss allowance	Credit impaired
Neither past due nor impaired	1,296,527	-	0.00%
Past due 0-30 days	22,245	-	0.00%
Past due 31-60 days	2,712	-	0.00%
Past due 61-90 days	76	-	0.00%
Past due more than 91 days	1,849,381	(1,843,519)	99.68%
	3,170,941	**(1,843,519)**	**58.13%**

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 otherreceivables during the year was as follows:

	2022	2021
Balance at 1 January	1,843,519	1,891,013
Loss allowance	3,478	110,920
Reversal of loss allowance	(52,942)	(127,298)
Amounts written-off	(22,980)	(31,116)
Balance at 31 December	**1,771,075**	**1,843,519**

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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

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 un discounted 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 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**

	On demand and less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total	Carrying amount
31 December 2021						
Trade and other payables (including non-current) *	2,538,850	841,626	2,306,228	27,965,661	33,652,365	29,662,663
Bond payables	-	-	10,900,000	-	10,900,000	9,877,213
Short-term and long-term borrowings	12,962,824	15,594,978	93,156,100	127,348,350	249,062,252	226,058,669
Short-term and long-term lease liabilities	92,763	278,287	721,534	708,903	1,801,487	1,587,437
	15,594,437	**16,714,891**	**107,083,862**	**156,022,914**	**295,416,104**	**267,185,982**

*excludes taxes payable of MNT 3,922,058 thousand in 2022 and 2,065,186 thousand in 2021.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

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 riskas 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:

	2022	2021
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(255,319,071)	(230,685,710)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	(30,559,855)
	(255,319,071)	**(261,245,565)**

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to floating interest rates for-non derivative instrumentsa t 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 increased or decreased by 50 basis points and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2022 would increase or decrease by MNT 152,799 thousand. This is mainly attributable to the Group's exposure to interest rates on its floating interest rate borrowings. There were no variable interest rate borrowings as at 31 December 2022.

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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

31. Financial instruments and financial risk management objectives (continued)

31.3 Market risk (continued)

31.3.2 Foreign currency risk management (continued)

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 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**

	USD	EUR	CNY	Other
31 December 2021				
Cash and cash equivalents	758,401	2,477,973	629,992	121
Trade and other receivables	32,335	80,042	333,137	5,445
Deposit placed for leased stores	56,976	305,748	53,622	-
Trade and other payables	(1,374,166)	(941,237)	(76,852)	(747)
Long-term other payables	(25,622,107)	-	-	-
Short-term and long-term borrowings	(41,093,152)	(97,285,103)	-	-
Lease liabilities	(344,483)	(105,238)	-	-
	(67,586,196)	**(95,467,815)**	**939,899**	**4,819**

The following significant exchange rates were applied during the year.

	Average rate		**Reporting date spot rate**	
(In MNT)	**2022**	**2021**	**2022**	**2021**
USD	3,141	2,849	3,445	2,849
EUR	3,302	3,372	3,669	3,223
CNY	466	442	495	447

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 sensitivityrate 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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

31. Financial instruments and financial risk management objectives (continued)

31.3 Market risk (continued)

31.3.2 Foreign currency risk management (continued)

Foreign currency sensitivity analysis (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.

	2022 (profit or loss before tax)		2021 (profit or loss before tax)	
	Strengthening (10% increase)	Weakening (10% decrease)	Strengthening (10% increase)	Weakening (10% decrease)
USD	3,811,813	(3,811,813)	6,758,620	(6,758,620)
EUR	8,335,791	(8,335,791)	9,546,782	(9,546,782)
CNY	(289,105)	289,105	(93,990)	93,990
Other	(215,224)	215,224	(482)	482

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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

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:

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised cost				
Cash and cash equivalents	9,034,919	9,034,919	4,389,479	4,389,479
Trade and other receivables	1,924,834	1,924,834	1,327,422	1,327,422
	10,959,753	**10,959,753**	**5,716,901**	**5,716,901**
Liabilities carried at amortised cost				
Trade and other payables	17,047,134	17,047,134	4,040,556	4,040,556
Bond payables	-	-	9,877,213	9,877,213
Short-term and long-term borrowings	225,539,851	225,539,851	226,058,669	226,058,669
Short-term and long-term lease liabilities	890,057	890,057	1,587,437	1,587,437
Other long-term payables	30,984,941	30,984,941	25,622,107	25,622,107
	274,461,983	**274,461,983**	**267,185,982**	**267,185,982**

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 forsegment 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
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

32. Segment information (continued)

32.1 Segment revenue and results

		Segment revenue		Segment gross profit	
		2022	2021	2022	2021
Domestic sales	Knitwear	47,020,318	33,409,990	24,553,879	11,767,768
	Sewn	25,851,677	21,939,273	11,996,860	5,858,368
	Woven	17,001,136	7,938,312	8,602,065	3,018,996
	Service income	1,612,336	1,168,015	452,379	310,012
	Other	2,014,839	2,203,938	(473,011)	(1,345,005)
		93,500,306	66,659,528	45,132,172	19,610,139
Export sales /wholesale/	Knitwear	33,569,927	29,990,703	12,185,635	12,586,466
	Sewn	2,181,496	1,970,595	955,590	663,291
	Woven	8,672,411	3,459,143	3,299,531	1,303,356
	Other	1,161,679	1,401,991	631,145	912,332
		45,585,513	36,822,432	17,071,901	15,465,445
Export sales /online/	Knitwear	44,918,591	32,430,548	28,931,039	19,536,402
	Sewn	4,909,037	4,847,911	2,190,227	2,218,067
	Woven	4,509,048	3,582,018	2,366,370	1,971,119
	Other	5,114	1,892	(30,931)	(330)
		54,341,790	40,862,369	33,456,705	23,725,258
		193,427,609	**144,344,329**	**95,660,778**	**58,800,842**
Other income				1,162,425	853,608
Selling and marketing expenses				(61,767,484)	(60,568,067)
General and administrative expenses				(14,138,399)	(14,636,714)
Reversal of impairment loss on financial assets				49,464	16,378
Other expense				(13,355)	(78,409)
Finance income				29,261	2,974,646
Finance expense				(30,979,282)	(25,474,286)
Loss before income tax				**(9,996,592)**	**(38,112,002)**

None of the other segments met the quantitative thresholds for reportable segments in 2022 and 2021.

32.2 Geographical information

The Group sells their products in different geographical areas as detailed below:

	Revenue from external customers		Non-current assets	
	2022	2021	2022	2021
Mongolia	93,502,725	66,659,528	138,751,850	147,285,395
Asia Pacific	33,298,349	25,537,722	44,269	53,622
Europe	50,408,791	40,689,451	726,782	623,467
Russia	1,014,976	1,037,369	-	-
North America	15,202,334	10,387,431	228,693	382,809
Australia and New Zealand	434	32,828	-	-
	193,427,609	**144,344,329**	**139,751,594**	**148,345,293**

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

32. Segment information (continued)

32.2 Geographical information (continued)

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 2022 and 2021.

35. Events after the reporting period

As per Resolution No. 02 of the Board of Directors dated 3 February 2023, no dividends were declared in 2023.

The economic impact of the Covid-19 epidemic that spread at the end of 2019 began to weaken in 2022, and on 8 January 2023, China stopped its "Zero-Covid" policy and opened its borders to the international community, a positive event that increased the possibility of increasing the flow of tourists and reducing transportation costs.

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

OTHERS

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FACTORY STORE
Industrial street, Khan-Uul district,
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Tel: +976 7004 8888

GALLERIA ULAANBAATAR STORE
The left side of the Government House,
Sukhbaatar district, Ulaanbaatar, Mongolia
Tel: +976 7004 8888

DARKHAN CITY STORE
“Shine Darkhan” International Shopping Center,
Darkhan, Mongolia
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INTERNATIONAL STORES LOCATION

BRANCH STORES

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GOBI MONGOLIAN CASHMERE
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Caifu square, No.3-2

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GOBI MONGOLIAN CASHMERE
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