GOBI
MONGOLIAN CASHMERE

ANNUAL REPORT 2021

GOBI JOINT STOCK COMPANY

OUR COMPANY

GOBI IN 2021

OUR OPERATION

SUSTAINABLE DEVELOPMENT (ENVIRONMENTAL, SOCIAL, GOVERNANCE)

CONSOLIDATED FINANCIAL STATEMENTS OF GOBI JSC AND ITS SUBSIDIARIES

OUR COMPANY

ABOUT THE COMPANY

Company name	GOBI Joint Stock Company
Business operation	Processing of goat cashmere and productions of finished goods and garments
Company address	Gobi JSC, Industrial street, 3rd sub-district, Khan-Uul district, Ulaanbaatar-17062, Mongolia.
	Postal address: Ulaanbaatar-17062, PO box 36/434, Gobi JSC
	Tel: (976)-70139977
	Fax: (976)-70143081
	E-mail: info@gobi.mn
	Website: info.gobi.mn
	Facebook: GOBI Cashmere
	Online stores:
	Mongolia: gobi.mn
	Europe: gobicashmere.com
	USA: gobicashmere.com/us
	China: gobicashmere.cn
Company management	Chairwoman: GERELMAA Damba
	Chief Executive Officer: BAATARSAIKHAN Tsagaach
Founded in	September 5, 1981
Number of employees	1,527
Factory capacity	Process 1,150 tons of raw cashmere
	1,050 tons of yarn, 30 tons of fine yarn
	1,500,000 pieces of knitted garments
	1,100,000 meters of woven fabric
	162,000 pieces cashmere coat and blazer

Number of stores	Domestic	Overseas
	Ulaanbaatar 2	Subsidiaries 3
	Darkhan 1	Branch store 1
		Franchise store 27
		Online store 12

BUSINESS MODEL/OUR VALUE

HUMAN RESOURCE

The sustainable development of the company will be ensured by creating a creative, capable and stable team based on high performance by recruiting, training and developing human resources, which is the company's most critical resource.

INTELLECTUAL RESOURCE

The guarantee of the future value of Gobi JSC is our intellectual property, brands, market position and technological know-how.

NATURAL RESOURCE

Sustainable and appropriate use of the exhaustible and inexhaustible resources used in our value creation process, such as raw cashmere, pasture, water, air and soil, are the foundation of our future well-being.

FINANCIAL RESOURCE

We will build our financial resources through the efficient management of our operations and the resources of domestic and foreign banks and financial institutions.

FACTORY RESOURCE

One of our most important resources is the use of environmentally friendly advanced equipment, technology and safety in the complex processing and production of raw cashmere to finished products.

SOCIAL AND COMMUNICATION RESOURCE

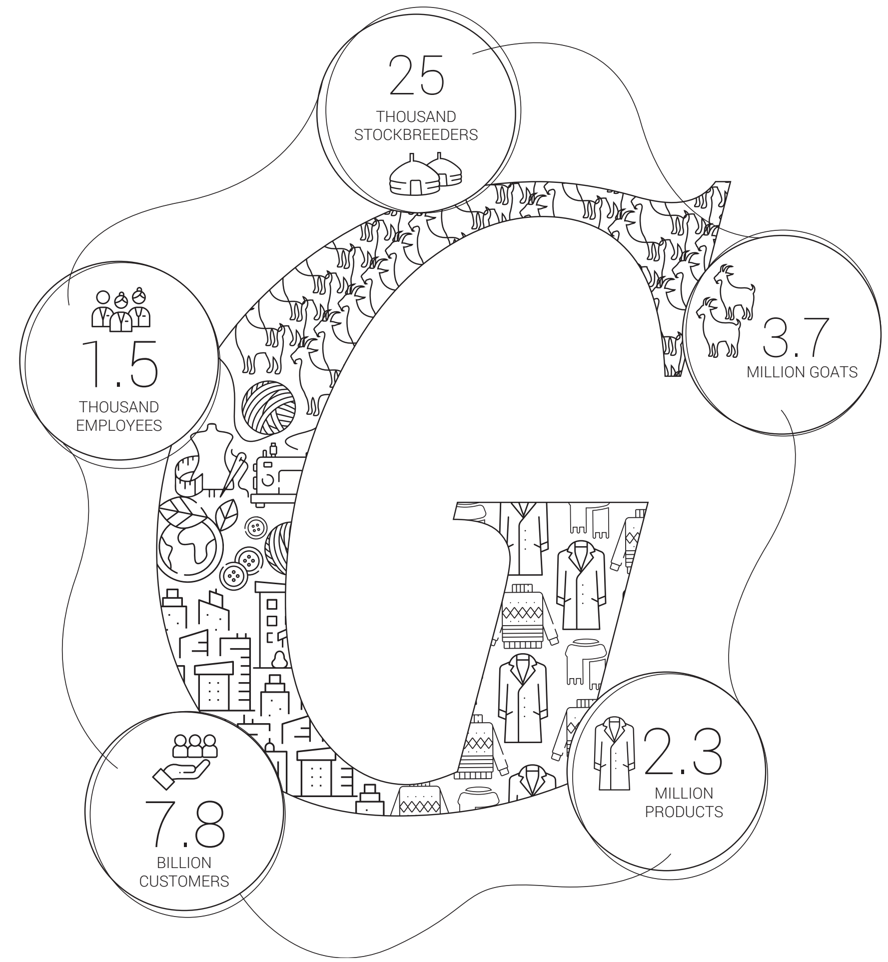
The stable and mutually respectful relationship that Gobi JSC will establish with all other stakeholders is the base for the company's sustainability and sustainable development.

GOAL

Gobi JSC's mission is the development of our people, technological leadership in our market, providing the highest customer satisfaction and providing value to our investors and employees.

OPERATING PRINCIPLE

- Fair, transparent and open
- Adherence to laws and regulations
- Human rights are paramount
- Driving a creative mindset
- Environmentally sustainable operation



SLOGAN

CASHMERE FOR ALL

VISION

We make cashmere a lifestyle

MISSION

Introducing our fashionable, high quality cashmere clothes with suitable prices

HISTORY TIMELINE

1976

In the scope of the UNIDO project, experimental factory to process goat cashmere, camel wool was opened.

1977

The Government of Japan provided 5 billion yen grant to the government of People's Republic of Mongolia and Mongolian-Japanese government made an agreement to build goat cashmere and camel wool processing factory in Ulaanbaatar.

1981

The factory equipment installation, setting, technology line was accepted for use; the Gobi Factory, first construction that was built in the scope of Mongolian-Japanese cooperation, opened its doors.

1987

Japan's SET-092 knitting machine with computer automated control was installed at the factory.

1991

Gobi JSC became the first factory in Mongolia to receive an International Quality Trophy and certification by introducing an international standard ISO-9000 being able to proudly export 98% of the produced products.

1993

According to the Mongolian Government Property Privatization Commission resolution it was decided to change the status Gobi state owned enterprise into the Gobi joint stock company, registered to the Mongolian Stock Exchange, 25.1% of a total equity fund or 1,919,061 pieces of share was traded through stock exchange.

1997

Mongolia, for the first time manufactures cashmere blankets, woven cashmere fabric, cloth and fine yarn with the opening of the "Gobi-2" factory.

1998

To expand the foreign market, founded subsidiaries named "Altai" in Japan, "Gobi Europe" in Belgium, "Gobi-USA" in the USA and formed partnership with more than 30 countries.

2000

Introduced the yarn dyeing technology. Installed the STOLL-330 knitting machine connected to the modern computer system.

2007

Gobi became privately owned company as the "FCI" LLC acquired through the international open tender the 73.45% of the Gobi state owned shares.

2008

The architecture of the Factory Store building was designed by the Japanese famous architect Sako Keichiro and the new store was opened in June.

2009

Opened the branch store in Tokyo, Japan. Made cooperation agreement with an Italian "VVA Consulting Company". Made a staged technical and technological renovations in the factory.

2010

On the occasion of the 30th anniversary of Gobi factory, made an agreement to cooperate with an Italian famous designer Saverio Palatella. Introduced the print technology for the first time in the Mongolian cashmere industry.

2011

Celebrating the 30th anniversary, GOBI by this time had doubled its production capacity. Launched the first collection with Saverio Palatella, "Gobi by Saverio Palatella".

2012

Opened the new branch store in front of the Central Post office in Ulaanbaatar. Gobi by Saverio Palatella launched a new Fall/Winter 2012 collection.

2013

Enhanced the producing capacity by introducing the new "Whole Garment" technology.

2014

"Gobi Mongolian Organic Cashmere" brand was launched which is special for its natural colors of cashmere beige, white, brown and warm grey.

2015

Started to introduce an Amoeba management that was founded by the Japanese famous Kyocera company.

2016

Publicly announced a goal to become the global leader in producing 100% cashmere coat. Opened an official branch store in Berlin, Germany.

2017

New sewing factory was commissioned with the capacity to produce 100,000 cashmere coats and blazers. Gobi launched online shopping platform at www.gobicashmere.com.

2018

Installed an Italian Bigagli spinning mule machine in the spinning factory and improved the quality of the yarn. Started the mass production of the cashmere blazer and became the world leading producer of cashmere blazers.

2019

Gobi JSC acquired the Goyo LLC and successfully made one of the largest merger in the industry.

2020

Gobi JSC was awarded the highest State Award, "Sukhbaatar Order". Launched online channels newly into the markets of Russian Federation, French Republic, Republic of Poland, Kingdom of Norway, Kingdom of Sweden, United Kingdom of Great Britain and Northern Ireland.

2021

Gobi JSC's 1,500 employees became the company shareholders.

CHAIRWOMAN'S MESSAGE

DURING THE PERIOD, GOBI JSC CONTINUED ITS PRODUCTION AND OPERATION BY PRIORITIZING THE HEALTH OF ITS EMPLOYEES AND STRICTLY ADHERING TO THE RECOMMENDATIONS AND GUIDELINES FROM THE STATE EMERGENCY COMMISSION AND THE CAPITAL CITY EMERGENCY COMMISSION BUT THE IMPACT OF THE PANDEMIC ON OUR OPERATIONS STILL REMAINS.

Dear shareholders,

This year, Gobi JSC celebrated its 40th anniversary and continues to expand its activities as a result of the efforts of investors, shareholders, suppliers, partners, customersand the company's management and staff since its establishment in 1981.

2021 has been a year of global Covid-19 pandemic. However, as more countries became vaccinated and more people around the world became aware of the disease, their ability to adapt and cope is helping to return to normal working and living conditions. In our country, too, the responsibility and preventive management of business organizations and individuals has improved resulting the business environment across the country to become more active.

During the period, Gobi JSC continued its production and operation by prioritizing the health of its employees and strictly adhering to the recommendations and guidelines from the State Emergency Commission and the Capital city Emergency Commission but the impact of the pandemic on our operations still remains. We have made major strategic investments over the past three years to see the long-term future in the big view, to be better known and competitive in the overseas market and to become a global brand. We conclude that we have well prepared the ground for future growth.

Our company had sales of 144.3 billion MNT in 2021. Sales revenue has increased by 23 percent compared to the previous year. Online sales which was launched in the second half of 2019 to increase our sales channels to the global market, have grown 4.2 times. It indicates that the time is fast approaching for the return on our large investments in recent years.

We are also implementing the digital ttransformation by introducing programming and automation at every stage of our operations to increase productivity and make better and faster decisions. At the same time, by cooperating with reputable and leading international companies, our reputation, international position, Gobi brand recognition and customers have been growing rapidly. Our staff working on digital transformation is learning from an international experiences, accumulating knowledge and skills.

Starting from 2022, we will enter to the next stage of our development and mobilize all our resources to make the Gobi brand popular in every corner of the world, to recoup our investments, increase sales, be profitable and increase the wealth of our shareholders.

Thank you to our shareholders, all the partners, stakeholders and loyal customers for their continued support during this time. I wish you every success, good health and prosperity!

CHAIRWOMAN OF THE BOARD OF DIRECTORS
GERELMAA. D

CHIEF EXECUTIVE OFFICER'S MESSAGE

COINCIDING WITH THE COMPANY'S 40TH ANNIVERSARY, ONE OF THE MOST SIGNIFICANT EVENTS IN THE HISTORY OF GOBI JSC WAS WHEN EACH EMPLOYEE OWNED THE COMPANY'S SHARES AND BECAME AN INVESTOR.

Dear shareholders, customers, business partners and colleagues, I would like to extend my sincere greetings to all of you.

2021 was a year of continuing Covid-19 conditions, but we focused on continuing production and operations. The company is constantly moving forward to maintain jobs, pay attention to the health and safety of its employees, pay their salaries on time, pay taxes on time and repay loans responsibly.

The main principle we followed in the face of sudden challenges was to look at the situation positively, seek more opportunities for reform as well as respond and adapt quickly. Although the impact of the pandemic on our company's operations has been relatively large, we saw it as an opportunity to lay a solid foundation by preparing to increase sales of online channels to the global marketand to promote the Gobi brand around the world. Therefore, we made brave decisions.

Just as any reform or development requires a lot of investment, effort, labour and diligence, the major investments we have made over the years have been far-reaching strategic decisions. During this time, we have gained experience by working with reputable foreign companies to introduce a number of innovations into our operations.

Online sales channel, which has been in focus since 2019 reached 40.9 billion MNT in 2021, 29% growth from the previous year and 4.2 times from 2019. The success of the Gobi brand in the global market can be seen by our advertisement at the Times Square in New York, on buses and taxis in London, England and the famous VOGUE magazine.

Coinciding with the company's 40th anniversary, one of the most significant events in the history of Gobi JSC was when each employee owned the company's shares and became an investor. One of my ultimate goals as CEO is to support, develop and contribute to the well-being of my employees. We believe that as we become a globally competitive company, as the company's reputation and value grow, the value of the shares held by our employees will increase and it will inevitably pay off.

By 2022, we will continue to be a market leader, expand our international operations and mobilize all our resources to contribute to the economic recovery of our country, while striving to be a responsible company that is socially, environmentally friendly and sustainable. I wish you all the good health and high success in your future endeavors!

Sincerely,
CHIEF EXECUTIVE OFFICER
BAATARSAIKHAN. TS

GOBI IN 2021

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Deputy CEO & Executive Vice President,

SOLONGO. CH

Dear shareholders, customers, business partners and colleagues. I would like to extend my sincere greetings to you.

Since its establishment, Gobi JSC has been successfully expanding its operations with the joint efforts of managers and talented staff. We have been developing online sales since the second half of 2019, with the decision to go international, deliver Mongolian cashmere to every corner of the world and make it available to everyone. During this time, the global pandemic of Covid-19 was not an easy year for all of us, but it was a time of many challengesand we continue to strive not to disrupt production and operations, but to increase our online sales without compromising the salaries and supplies of our employees.

In the future, we will focus on quality rather than quantity, develop software with the goal of being more productive with the available manpower and intensively introduce digital transition into our operations. At the same time, we strive to create a strong internationally recognized brand in line with global trends, pursuing environmentally friendly, sustainable and eco-friendly policies.

We are confident that we will soon be able to reap the benefits of this investment, as we have all the necessary conditions to become an internationally recognized brand with an experienced and skilled team, state-of-the-art equipment and technological know-how.

We would like to thank all the stakeholders who have trusted and supported us to this day, as well as our hard-working staff and their families and sincerely wish them good health and happiness.

OUR ACHIEVEMENTS, HIGHLIGHTS

MARCH

The March 2021 press of VOGUE, the world's largest fashion magazine, was released digitally and in print. Gobi brand cashmere coats, double-sided coats and other products were highlighted in the fashion section of the magazine.

28TH MAY

CEO of Gobi JSC, Ts.Baatarsaikhan, was awarded the title Labor Hero, as his contribution to Mongolia's economic and social development was highly appreciated by the government.

27TH JUNE

The Mongolian National Chamber of Commerce and Industry (MNCCI) held its annual "TOP-100" enterprise selection ceremony online and Gobi JSC was ranked 31st.

25TH OCTOBER

Gobi JSC's "60s mod" collection was selected as the customer satisfaction products at the annual "Leather, Wool and Cashmere Products-2021" exhibition organized by the Ministry of Food, Agriculture and Light Industry and the Mongolian Wool and Cashmere Association and won the Grand Prix award.

24TH APRIL

Annual shareholders meeting of Gobi JSC was held on April 24, 2021 at 11:00 am at the company office. Due to the global quarantine of Covid-19, Gobi JSC successfully held its annual shareholders' meeting online for the second year in a row and broadcasted it live on its official Facebook page, with a total of 136 shareholders attending with 88.42 percent of the vote.

29TH JUNE

The "Bell Ringing" ceremony was organized at the Mongolian Stock Exchange where Gobi JSC has officially announced a program to reward its 1,500 employees with its shares and signed a memorandum of understanding with Tavan Bogd Capital LLC. Thus, 1,500 employees of Gobi JSC became investor employees.

24TH NOVEMBER

By the decision of the Financial Regulatory Commission dated November 24, 2021, a total of 10,000 closed debt instruments of MNT 10 billion, each with a nominal value of MNT 1,000,000, offered by Gobi JSC were registered in the securities register. Gobi JSC successfully traded this "fully liquid" closed debt instrument through the over-the-counter market.

5TH SEPTEMBER

Celebrated the "40th anniversary" ceremony of Gobi JSC.

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Executive Vice President: Finance Officer,
SELENGE. G

It was a year of expanding our business for the Gobi JSC since 2021, when the pandemic continued, with the goal of ensuring financial stability and creating potential growth. In order to overcome uncertainties and difficulties and keep pace with the world, we have intensified digital transition, improved online sales and operations management and increased sales revenue in 2021 to 144.3 billion MNT (117.1 billion MNT in 2020) an 23% increase compared to the last year.

A total of 403 thousand products were sold in the domestic market, with sales of 66.6 billion MNT (313 thousand pieces in 2020, 49.5 billion MNT), an increase of 35% and the sales volume and quantity were relatively stable by receiving orders from customers in the same volume as in the previous year through foreign wholesale channels and 311 thousand products were sold, amounting to 36.8 billion MNT.

Total subsidiaries sold 177 thousand products of 40.9 billion MNT (127 thousand pieces in 2020, 31.6 billion MNT), which is an increase of 29%. This was due to the effective and efficient marketing promotion and motivation measures to introduce the Gobi brand to the world market and to compete with brands with many years of experience. From the preparation of raw cashmere to the production of value-added finished products, the highest value-added sales channel is the online sales channel. Therefore, we are investing and expanding the online sales channels and also giving the great importance to.

We have successfully implemented traditional marketing campaigns and programs such as "Gobi 1 Million Gifts" and "Gobi Around the World" by selecting the target market more efficiently, delivering the content and information they needand so the number of our registered users in the world market in Europe and the United States reached 198 thousand and 52 thousand, respectively, with a total of 250 thousand customers, which has grown 3.1 times from the previous year and is rapidly gaining recognition in target markets. It is expected that the return on investment in customer expand will be greater in the coming years.

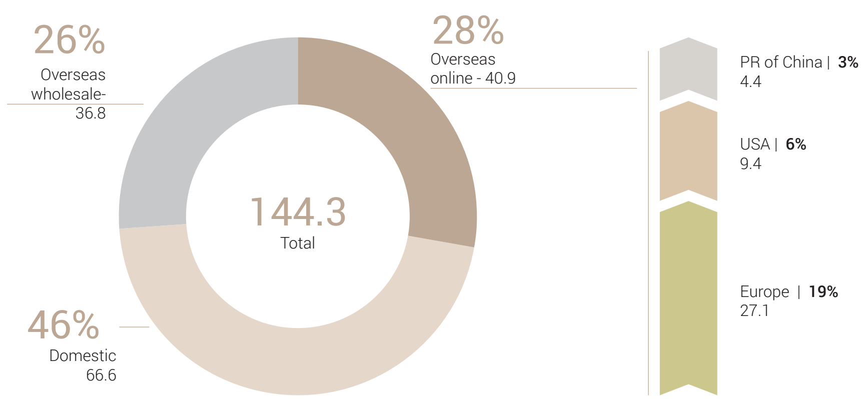
The raw materials we prepared in 2020 were sufficient in 2021, depending on the condition of the Covid-19 and were the cheapest in recent years, so we kept the cost of the finished product low and the ratio of gross profit to a reasonable level.

Despite the deficit, in 2021 we paid 29.9 billion MNT in salaries to more than 1,500 employees and paid 21.0 billion MNT in taxes and fees to the state budget on time.

It was a successful year for the management, which reduced its outstanding loan and interest expenses by 13% from the previous year, minimized non-marketing costs in international markets to maximize efficiency and made full use of its internal resources.

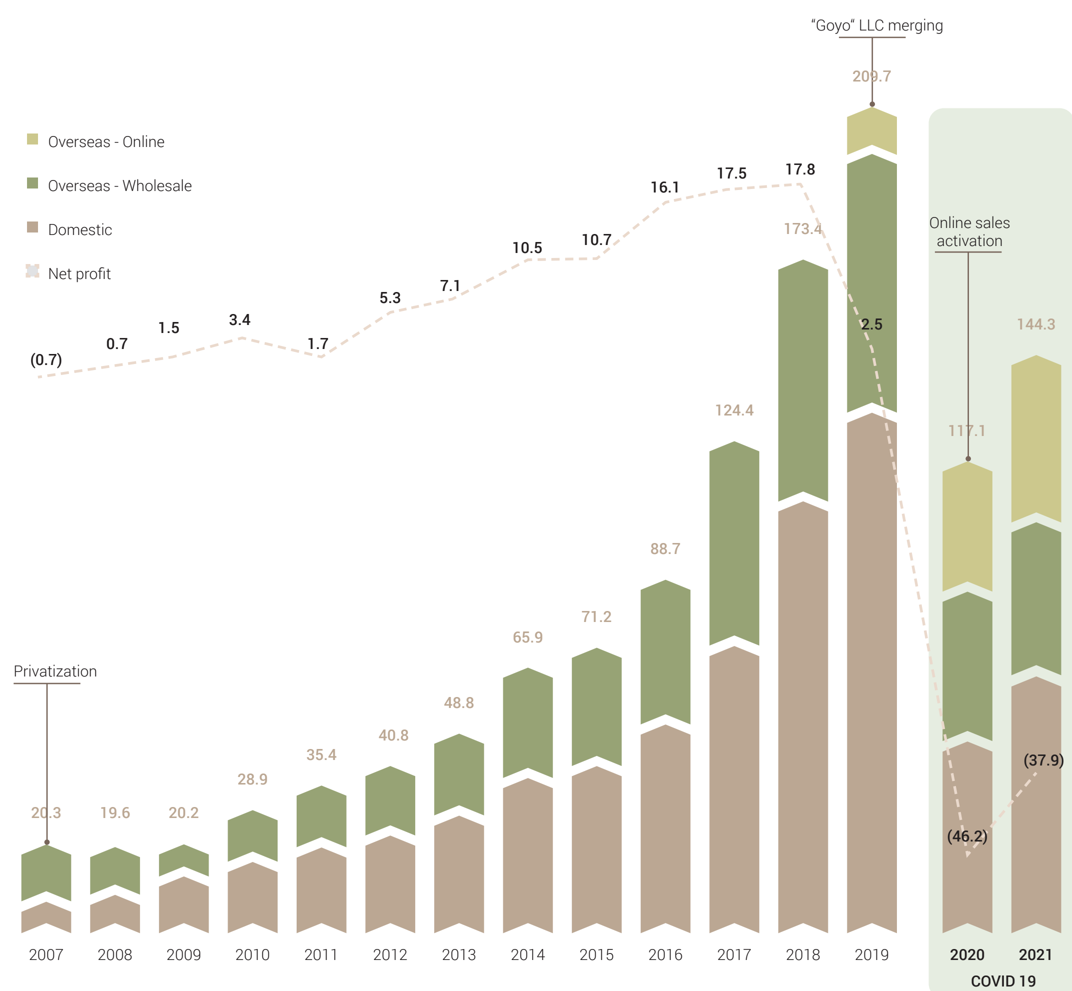
SALES REVENUE BY SEGMENT

/billion MNT, %/



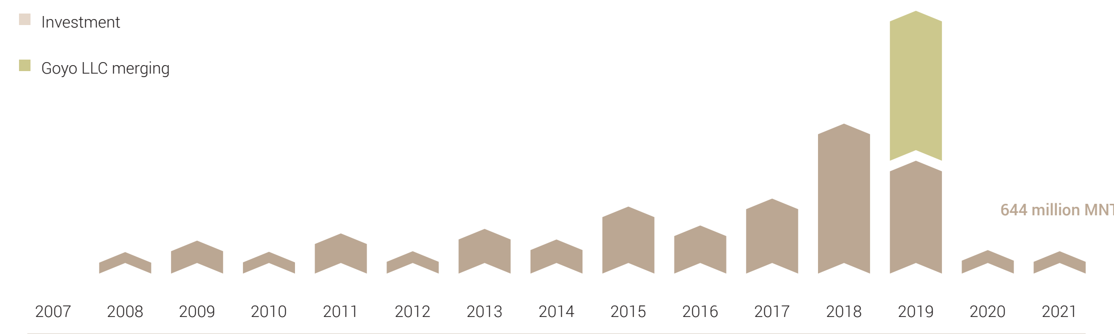
SALES. NET PROFIT

/billion MNT/



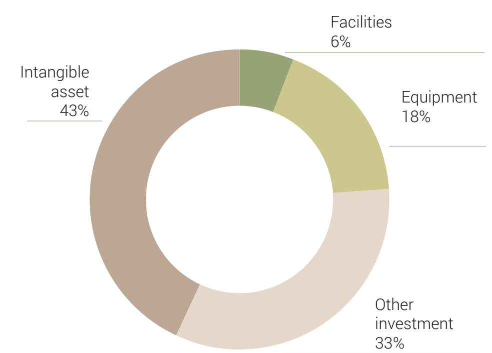
INVESTMENT

TOTAL INVESTMENT OF 148.3 BILLION MNT SINCE 2007



A total of 148.3 billion MNT has been invested since the privatization in 2007. Of which 60 billion MNT was invested in 2019, 23 billion MNT was spent on Gobi JSC's facilities, equipment and other investments, while the remaining 37 billion MNT was an increase from the merge of Goyo LLC.

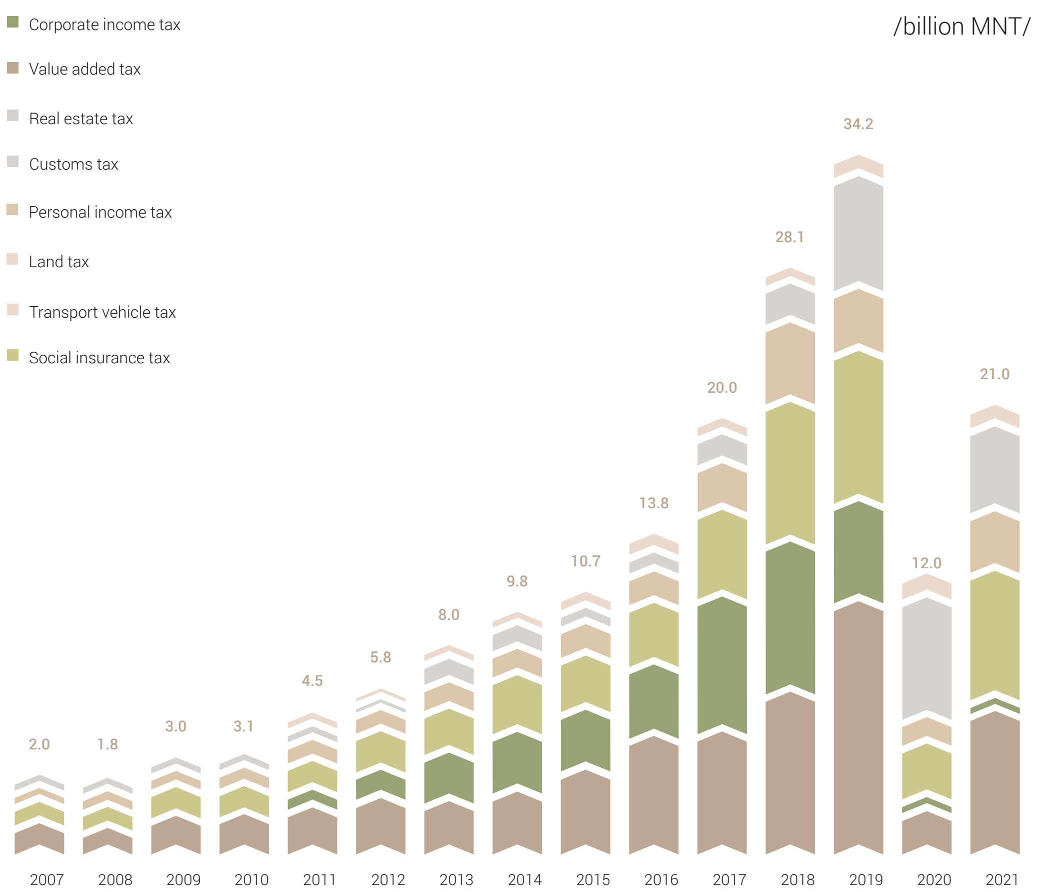
2021 INVESTMENT



For the total investment of 644 million MNT in 2021, 40 million MNT or 6% is for facilities, 116 million MNT or 18% is for equipment, 211 million MNT or 33% is for furniture and other physical investment, 277 million MNT or 43% was spent on intangible investments.

TAX AND FEE PAYMENT TO THE STATE BUDGET

Since 2007 Gobi JSC has contributed total of 177.9 billion MNT to the Mongolian Tax Authority alone. Below shown detail by the category and timing.



GOBI IN 2021

/compared to 2020 performance/

↑ 23%
144.3 BILLION MNT
Sales revenue

↑ 18%
(37.9) BILLION MNT
Net income (loss)

↑ 35%
66.6 BILLION MNT
Domestic sales

↑ 2%
36.8 BILLION MNT
Overseas sales

↑ 29%
40.9 BILLION MNT
Online sales

↓ 53%
576.0 THOUSAND PIECES
Produced products

↑ 21%
891.4 THOUSAND PIECES
Sold products

↑ 58%
39.9 BILLION MNT
Marketing expense

↑ 69%
254.0 BILLION MNT
Market capitalization

↑ 67%
21.0 BILLION MNT
Tax and fee paid

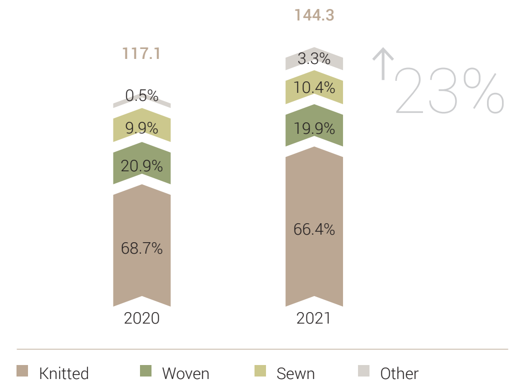
↓ 30%
644.0 MILLION MNT
Investment

↓ 13%
234.2 MILLION MNT
Loan balance

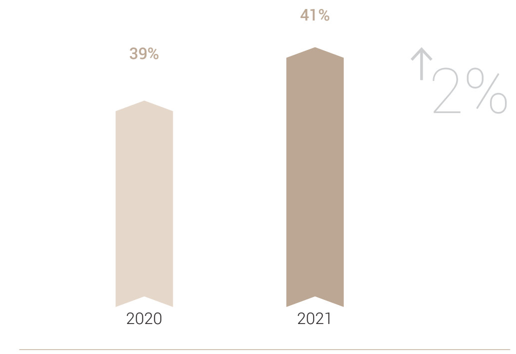
2021 FINANCIAL RESULT

INDICATOR	Measuring unit	2020 Performance	2021 Performance	Growth since previous year: Quantity	Growth since previous year: Percent
SALES REVENUE	**million.mnt**	**117,093**	**144,344**	**27,252**	**23%**
Domestic sales	million.mnt	49,471	66,660	17,188	35%
Overseas sales	million.mnt	36,021	36,822	801	2%
Online sales	million.mnt	31,600	40,862	9,262	29%
Number of products sold	thousand.pcs	735	891	156	21%
COST OF GOODS SOLD	**million.mnt**	**71,536**	**85,543**	**14,007**	**20%**
GROSS PROFIT	**million.mnt**	**45,556**	**58,801**	**13,245**	**29%**
Gross margin	percent	39%	41%	-	2%
Operation expense	million.mnt	86,082	100,189	14,107	16%
Marketing expense	million.mnt	25,203	39,884	14,681	58%
OPERATING PROFIT	**million.mnt**	**(40,526)**	**(41,388)**	**(862)**	**2%**
Operating margin	percent	-35%	-29%	-	6%
Non-operating expense	million.mnt	6,957	(3,276)	(10,233)	-147%
Pre-tax profit	million.mnt	(47,483)	(38,112)	9,371	20%
NET PROFIT/LOSS	**million.mnt**	**(46,155)**	**(37,946)**	**8,209**	**18%**
Net margin	percent	-39%	-26%	-	13%
Total operation expense	million.mnt	157,618	185,732	28,114	18%
Cost per revenue	mnt	1.35	1.29	(0.06)	-4%
PRODUCTION					
Knitwear product	thousand.pcs	954	474	(480)	-50%
Woven product	thousand.pcs	220	72	(148)	-67%
Sewn product	thousand.pcs	49	30	(19)	-39%
Coat	thousand.pcs	29	15	(14)	-48%
Blazer	thousand.pcs	10	4	(6)	-62%
Yarn	tons	226	174	(52)	-23%
TOTAL EMPLOYEES	**person**	**1,939**	**1,527**	**(412)**	**-21%**
Net income per employee	thousand.mnt	60,388	94,528	34,140	57%
INVESTMENT	**million.mnt**	**916**	**644**	**(272)**	**-30%**
TOTAL LIABILITY	**million.mnt**	**314,562**	**270,733**	**(43,829)**	**-14%**
Bank loan	million.mnt	269,904	234,159	(35,745)	-13%
TOTAL ASSET	**million.mnt**	**379,814**	**299,858**	**(79,955)**	**-21%**
Inventory	million.mnt	193,854	138,030	(55,823)	-29%

SALES REVENUE
/billion MNT/

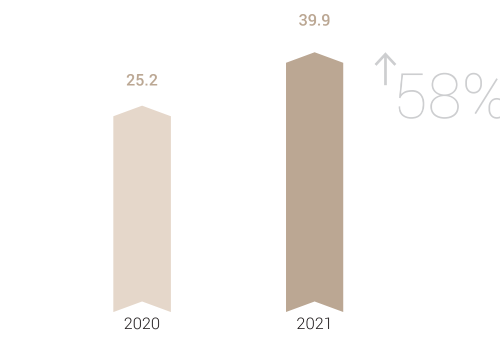


GROSS MARGIN

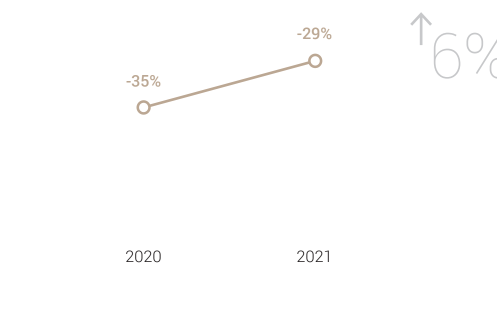


Compared to 2020, the 2021 profit margin reached 144.3 billion MNT, an increase of 23%, while the share of gross profit increased by 2 points to 41%.

MARKETING EXPENSE
/billion MNT/

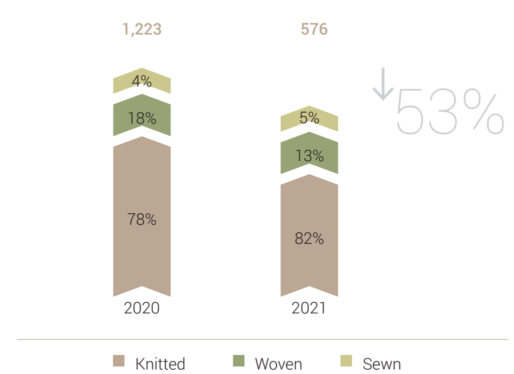


OPERATING PROFIT PERCENTAGE

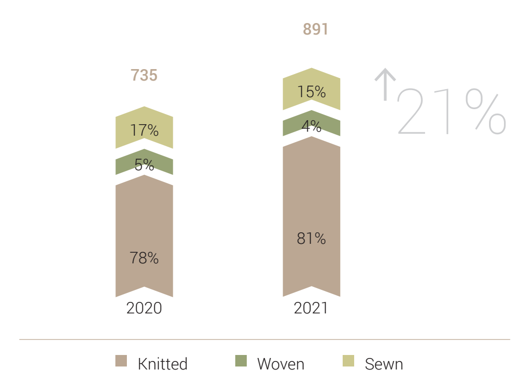


In terms of operations, online marketing activation expense increased by 58% to 39.9 billion MNT and operating profit increased by 6 percentage points.

PRODUCTION QUANTITY
/thousand pieces/

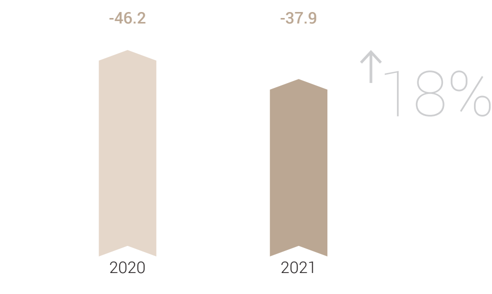


SOLD QUANTITY
/thousand pieces/

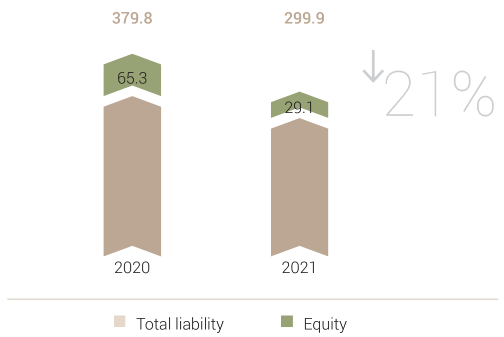


In 2021, the number of products produced decreased by 53%, while the number of products sold increased by 21%. In terms of product types, knitwear accounts for about 80 percent of the products produced and sold. Woven products accounts for 13% of produced goods and 4% of sold products. Sewn products account for 5% of output and 15% of sales.

NET PROFIT, LOSS
/billion MNT/

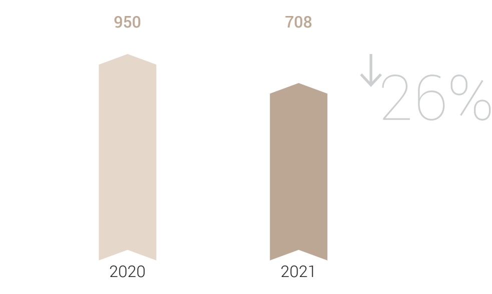


TOTAL ASSETS
/billion MNT/

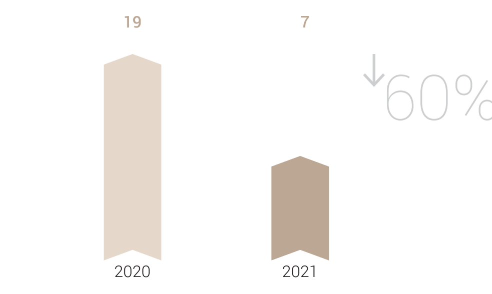


The company's net profit (loss) for 2021 was -37.9 billion MNT and the loss for the reporting period exceeded 30% of its equity at the end of the reporting period.

INVENTORY TURNOVER
/day/



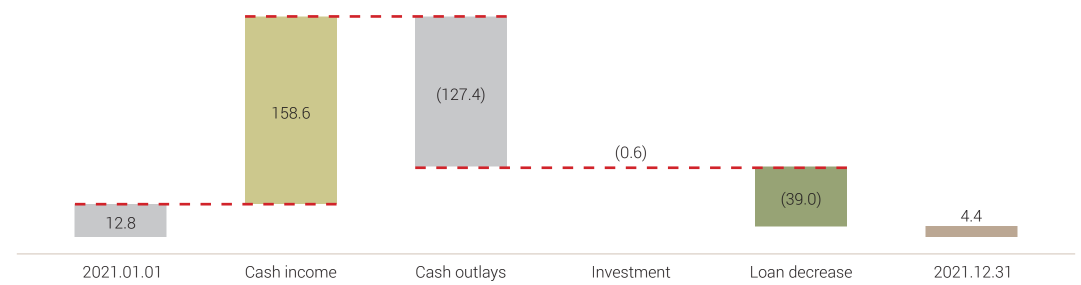
RECEIVABLES TURNOVER
/day/



Compared to 2020, financial statements for 2021 shows no raw material withdrawals is done, taken the measure to reduce resources and reduced inventories by 55.8 billion MNT or 29%. In addition, to reduce loan sales step-by-step measures were taken. Therefore, reduced the turnover of sales receivables by 60% to 7 days and the balance of receivables decreased by 62.3%, which contributed to the decrease in total assets.

CASH FLOW

/billion MNT/



In 2021 operating cash flow was 158.6 billion MNT, of which sales revenue was 157.8 billion MNT.

Out of the total expenditure of 127.4 billion MNT, 81.4 billion MNT was paid for operating expenses, 21.0 billion MNT for tax expenses and 25.0 billion MNT for financing expenses and shown as net operating cash flows have improved.

In frame of investment activities, 0.6 billion MNT was invested. Within the framework of financial activities, the loan amount has been reduced by 39.0 billion MNT.

LARGE DEALS

No large deals were made during the reporting period.

DEALS HAVING CONFLICT OF INTEREST

/thousand MNT/

1. Transactions and balances with related parties

1.1 Balance of related parties

At the end of the reporting period, the balance of related parties is as follows:

	2021	2020
Receivables from related parties	30,222	215,053
Accounts payable to parent company / Short term /	185,933	12,477,541
Accounts payable to parent company / Long term /	25,622,107	14,230,453

Long-term payables to related parties are related to the purchase of shares of Goyo LLC from Tavan Bogd Trade LLC on credit. It was agreed to pay the debt in August 2020 on the date of purchase. A total of three amendments were made to the original agreementand in accordance with the "amendment agreement" signed in September 2021, the payment deadline was changed to May 2024.

Account balances of related parties are unsecured and no bad receivables have been established.

1.2 Transactions with related parties

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

Tavan Bogd Trade LLC	2021	2020
Funding from the parent company	-	12,459,400
Amount paid from parent company financing	-	12,459,400
Purchases from the parent company	1,256,062	1,463,505
Interest expense paid to the parent company	2,032,887	2,418,383
Sales to the parent company	39,134	4,392

The following transactions are performed with other related parties, which are under joint control:

	2021	2020
Funding from related parties	41,483,084	-
Amount paid from related parties	41,483,084	-
Purchases from related parties	454,406	645,589
Sales to the related party	343,699	341,646
Interest expense paid to the related party	272,418	-

The following transactions were made with Khan Bank, a related party to Tavan Bogd Trade LLC:

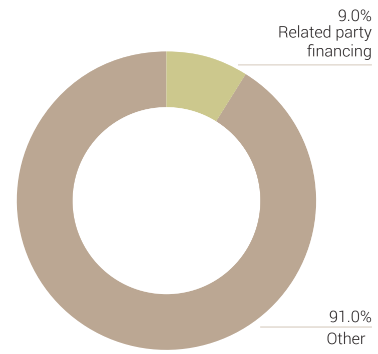
	2021	2020
Funding from Khan Bank	39,237,105	69,270,000
Amount paid from Khan Bank funding	47,237,105	89,000,000
Sales to the related party	1,115,012	10,500
Interest expense paid to Khan Bank	207,648	3,308,145

All related party transactions are made on mutually agreed terms and at market prices.

2. Comparison of transactions with related parties

• Financing expense

	2021	2020
Total financing expenses	25,474,286	29,542,260
Financing expenses from related parties	2,305,305	2,418,383
Percentage / related party /	9.0%	8.2%



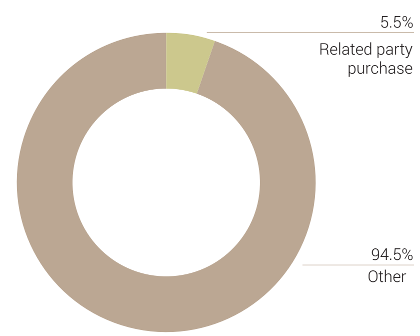
TOTAL FINANCING EXPENSE

In 2021, Gobi JSC paid 2,305,305 thousand MNT for related financing expenses, which is 9.0 percent of the total financing expenses. The average MNT interest rate on related financing costs is 7.3 percent. Related parties do not require financial ratios or collateral for the disbursements.

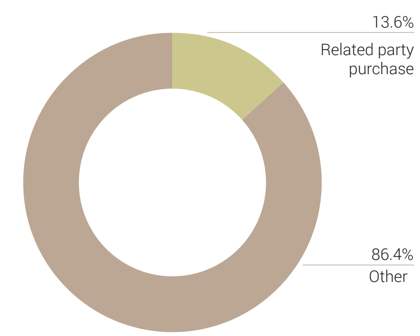
• Purchases

	2021	2020
Total purchases	8,293,815	17,818,750
Foreign purchases	4,957,126	12,490,308
Domestic purchases	3,336,689	5,328,442
Purchases from related parties	454,406	645,589
Percentage /share of the party related to the total purchases /	5.5%	3.6%
Percentage /share of the party related to the domestic purchases/	13.6%	12.1%

TOTAL PURCHASE



DOMESTIC PURCHASE



Gobi JSC's purchases from related parties in 2021 accounted for 454,406 thousand MNT or 5.5 percent of total purchases and 13.6 percent of domestic purchases. Purchases from related parties were made at market prices.

FINANCING INFORMATION

/thousand MNT/

№	Party	Form of financing	Annual interest rate	Currency	Loan balance 2021.12.31	Loan balance 2021.01.01
1	Khan Bank	Credit line	12.60%	MNT	-	8,000,000
2	Golomt Bank	Credit line	13.50%	MNT	-	26,000,000
3	Golomt Bank	Credit line	7.20%	USD	9,685,920	-
4	Xac Bank	Credit line	13.20%	MNT	10,000,000	5,000,000
5	Development Bank of Mongolia	Short term loan	11.50%	MNT	33,333,333	40,000,000
6	Trade and Development Bank (Asian Development Bank)	Short term loan	8.00%	MNT	990,000	3,960,000
7	Development Bank of Mongolia	Long term loan	12.00%	MNT	42,900,000	42,900,000
8	International Investment Bank	Long term loan	5.25%	EUR	45,121,860	48,940,920
9	International Investment Bank	Short term loan	4.25%	EUR	51,567,840	55,932,480
10	European Bank for Reconstruction and Development (Tranche 1A)	Long term loan	5.3% + LIBOR	USD	7,251,491	8,289,484
11	European Bank for Reconstruction and Development (Tranche 1B)	Long term loan	6.0% + LIBOR	USD	10,877,236	12,434,225
12	European Bank for Reconstruction and Development (Tranche 2)	Long term loan	5.3% + LIBOR	USD	12,431,128	13,988,504
13	Trade and Development Bank	Long term loan	13.60%	MNT	-	4,458,498
	Total amount				224,158,809	269,904,111

Bank of Mongolia exchange rate /MNT/:

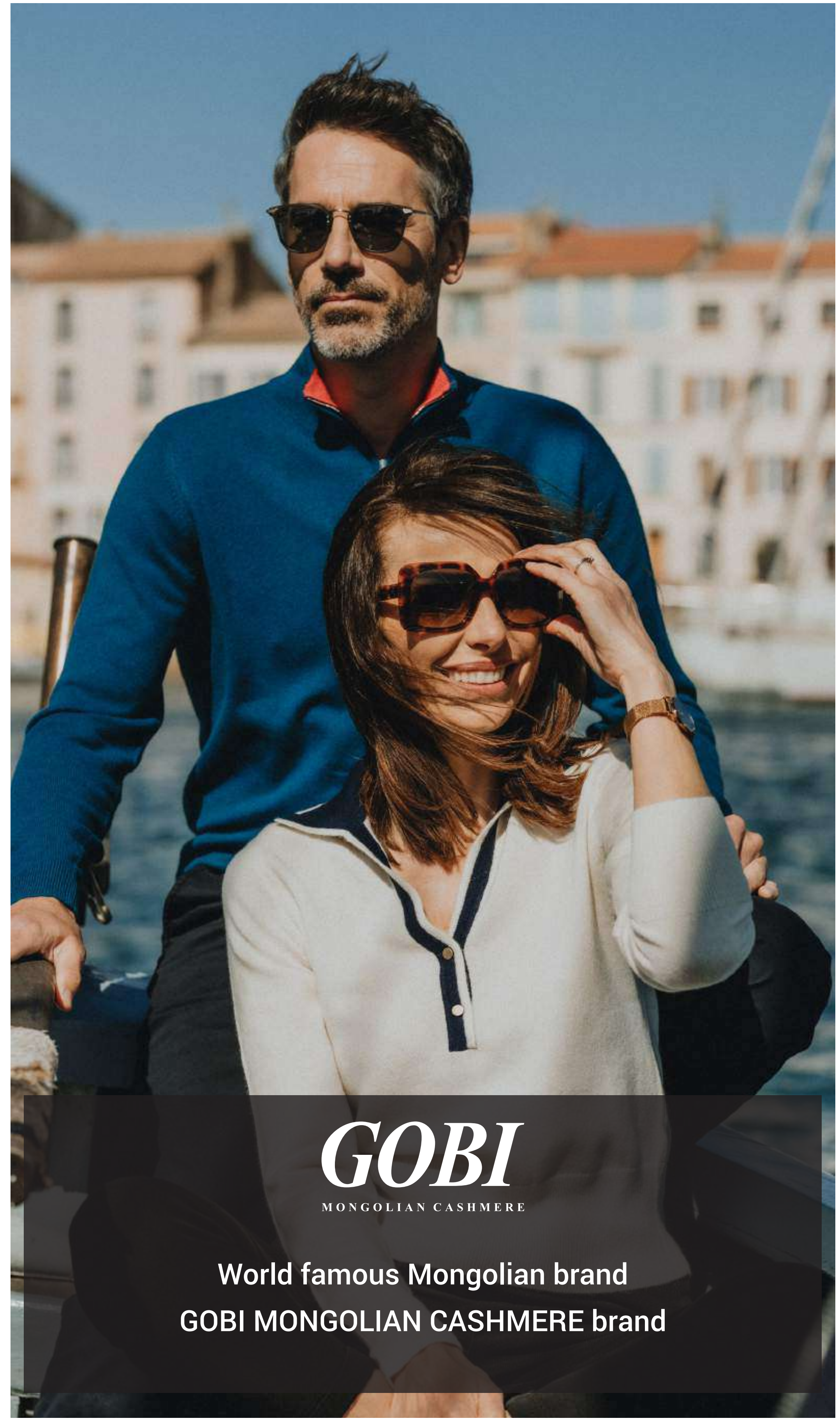
	2021-12-31	2021-01-01
USD	2,848.80	2,849.51
EUR	3,222.99	3,495.78

№	Party	Form of financing	Annual interest rate	Currency	Loan balance 2021.12.31	Loan balance 2021.01.01
1	Bearing bond	Short term loan	9.00%	MNT	10,000,000	-
	Total amount				10,000,000	-

COMPANY'S ADMINISTRATIVE EXPENSE

/thousand MNT/

EXPENSE	2021.12.31	2020.12.31
Board of Director's remuneration	178,666	167,797
Key Management's remuneration	1,367,487	1,155,302
Shareholder's meeting expense	16,478	13,966



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OUR OPERATION

Gobi JSC | ANNUAL REPORT 2021

Executive Vice President: Creative Sales Product,
BOLORMAA. B

The Covid-19 global pandemic has also affected the fashion industry and designers faced severe challenges. But recently, there has been a trend of reviving the activities of fashion brands as customers are moving to a normal life.

Gobi JSC aims to introduce its GOBI brand to everyone in the global market whereas design and product development are important to achieve goals. For 2021, our company's design development team has offered its customers a new collection of simple and everyday fashion in line with global fashion trends and the lifestyle of people working remotely and from the office. For the Gobi-Autumn/Winter 2021-22 60'S MOD collection, we have developed a new type of fabric drapery with a long loop, combined knit derivative patternand launched a new style of coat, which has become a popular product. At the annual "Leather, Cashmere Products-2021" exhibition organized by the Ministry of Food, Agriculture and Light Industry and the Mongolian Wool and Cashmere Association, our 60's Mod collection was selected as a product of customer satisfaction, high quality and designand won the "GRAND PRIX" for the BEST PRODUCT 2021 of the sector.

In addition, the production and sale of synthetic lined coats has been very popular with customers and expected that this product will be in high demand.

In the future, we plan to launch products that fit our daily lifestyle and are consumer-friendly, as well as focus on the development and use of WHOLE GARMENT, which is development of non-sewing knitwear. We also plan to introduce our Organic brand products to the global market.

The Gobi brand values green production, takes into account the risks of adverse effects on the environment, is constantly seeking environmentally friendly technologies and introducing them into our production and design development. Expressing its commitment to environmentally friendly and socially sustainable production in 2021, the Company accepted and joined the provisions of the "Voluntary Rules of Sustainable Textile Production", which was developed by the Sustainable textile production and ecolabelling project /STeP EcoLAB/ and the Mongolian Wool and Cashmere Association.

Gobi JSC's primary production factory received "Golden Certification" after being evaluated by the UK-based the Sustainable Fiber Alliance/ SFA's "Clean Fibre Processing Code of Practice" conformity assessment and the yarn produced by the spinning mill has received the internationally recognized quality certificate that meets the "STANDARD 100 by OEKO-TEX" standard of the Swiss-based OEKO-TEX organization, for the second year. This certificate proves that the yarn produced by Gobi JSC does not contain any toxic chemicals and is friendly to human health.

In 2021, we have focused on improving the skills and attitudes of our factory staff and by implementing various quality and technology solutions and improvements, each of the 5 factories has successfully achieved its goals and increased product quality by more than 3 percent. In addition, each factory has focused on correctly diagnosing, eliminating and reducing the causes of non-conformances and is updating and following the technological instructions, quality and technological procedures, methodologies and work instructions for each stage.

At our primary production factory, we have installed and commissioned Autefa combing machines with the most advanced Italian yarn production technology in cooperation with Italian experts. In addition, the quality of yarn increased by 4.7 percent compared to the same period of the previous year due to the optimization of the control phase of the spinning mill and the improvement of quality control.

In terms of domestic sales, Gobi JSC has total of 3 stores at the domestic market, 2 stores in Ulaanbaatar and 1 store in Darkhan. 2021 was a difficult year, with no foreign tourists due to the pandemic and due to a number of lockdowns stores were closed for 59 days.

As now online commerce is booming, Gobi's official online store www.gobi.mn was launched in August 2021 to save customers' time and as of March 2022, more than 15,400 customers have made purchases. In 2021 number of followers of Gobi Cashmere Facebook page reached at 100,000. In order to create a comfortable service environment for our customers, we are renovating the factory's main store in February 2022. This year we aim to launch new collections and use innovative forms of marketing every month to support sales and profitability and present innovative products to our customers.

In terms of overseas sales, in 2021, the border was closed and it was difficult to ship goods, but we could successfully do sale to 86 customers from 26 countries. In 2022, we are focusing on increasing Gobi brand sales in foreign markets and aiming to increase the number of quality and reliable customers.

Our team will work hard to develop raw cashmere prepared by our herders, produce value-added final products, create designs for different people around the world with the motto CASHMERE FOR ALL and innovate to promote our products not only domestically but also overseas.

PRODUCT DEVELOPMENT, NEW TECHNOLOGIES

Our design and development team develops its own unique brands, uses more environmentally friendly auxiliary materialsand delivers products with colorful designs and trends that meet the needs of our customers. For customers who want to stay fashionable even in the cold winter, we have launched a new style jacket that combines 100% cashmere drape with high quality synthetic and organic lining. The features of this jacket such as light, thin, warm and elegant, had made it a product that satisfies customers.

Gobi JSC's Design Development Department paid more attention to material processing due to high color combinations and floating threads to create patterns for the Gobi brand's Autumn / Winter 21-22 "60's MOD" collection. The palate pattern has always been a key figure in the fashion industry. In this collection, we have reproduced this pattern with large-scale patterns that follow international fashion trends.

Our recommended innovative designs of loose-fitting men's jackets and women's coats, emphasizing the new design patterns and color combinations have made the product for high demand by customers.

SPECIAL ORDER

Designed a cashmere hat with embroidery for the President's swearing-in ceremony.

Double sided cover design, developed a new technology of textiles for Buro 24/7 on New Year's orders.

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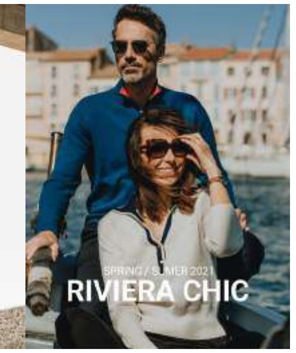
COLLECTION

YAMA LIMITED EDITION COLLECTION

GOBI SPRING/SUMMER 2021 ICE CREAM COLLECTION

MEN'S COAT COLLECTION



GOBI SPRING/SUMMER 2021 RIVIERA CHIC COLLECTION

GOBI SPRING/SUMMER 2021 TERRACOTTA COLLECTION

TRENCH COAT COLLECTION

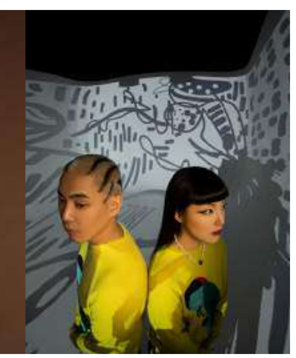
GOBI SPRING/SUMMER 2021 PALM LEAF COLLECTION

COAT COLLECTION

GOBI FALL/WINTER 21-22 60'S MOD COLLECTION

FALL/WINTER COAT COLLECTION

BABY CAMEL COLLECTION



GOBI FALL/WINTER 21-22 EXPRESSIONIST COLLECTION

GOBI FALL/WINTER 21-22 CHALKED COLLECTION

GOBI FALL/WINTER 21-22 DRESSAGE COLLECTION

ORGANIC FALL/WINTER 21-22 COLLECTION

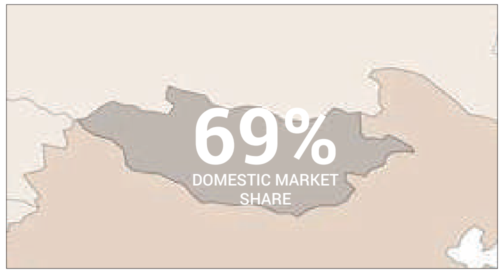
NEW YEAR CAPSULE COLLECTION

DOMESTIC MARKET

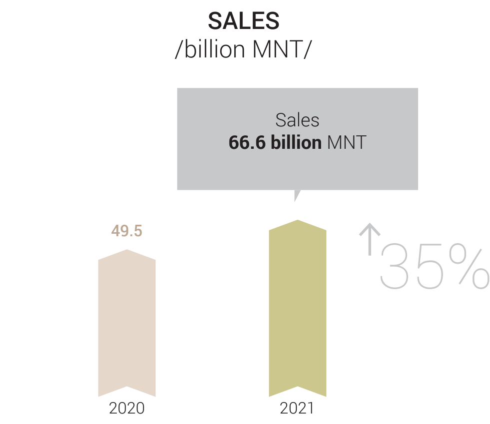
In 2021 domestic sales was 66.6 billion MNT increased by 35% compared to the previous year.

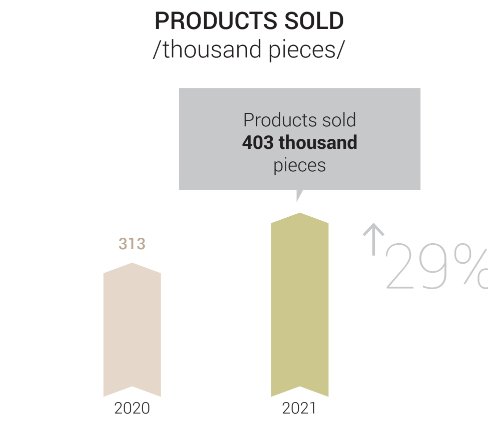
A total of 403,000 products were sold, which shows 29% increase compared to the previous year.

Gobi JSC accounts for 69% of the Mongolian cashmere market.



Source: Based on Gobi JSC's domestic market research

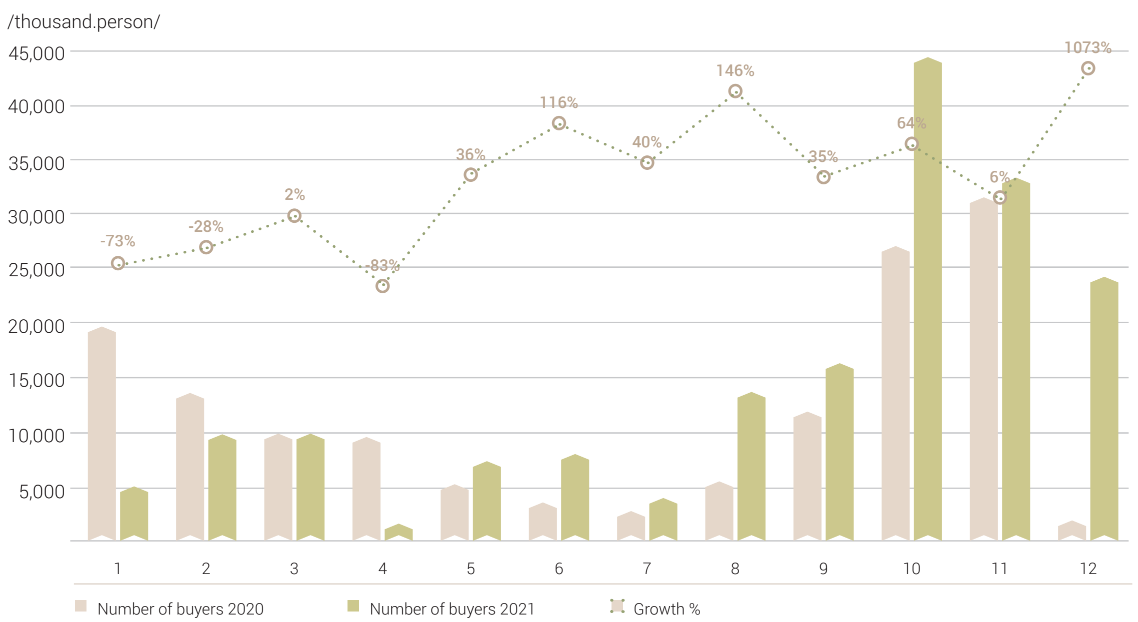




BUYERS

In 2021, Covid-19 had a strict quarantine due to the high level of preparedness for the pandemic, with stores operating only for 308 days a year, or 84 percent, selling their products only to domestic customers.

In the first 4 months of the year, the number of buyers decreased compared to the previous year, but the number of buyers increased sharply in the second half of the year due to adaptation to pandemic conditions, maintaining a good infection control regime and improvement of personal management across the country total of 178,851 people made purchases. This is a 25% increase compared to 2020.



OFFICIAL ONLINE STORE

On August 4, 2021, an official Gobi brand online store (www.gobi.mn) was opened for domestic customers to save our customers' time. We are offering our products in a wide range of designs and sizes at our online store and we are focusing on introducing new collections in a timely manner and delivering orders to our customers quickly.

In the more than four months since the online store opened the number of registered users has reached 14,235.

100K ↑ FOLLOWERS

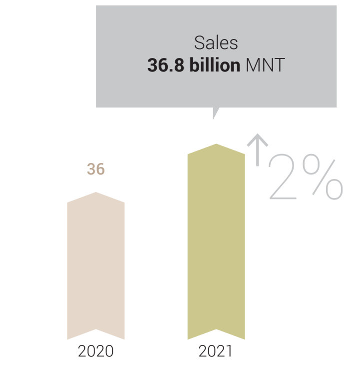
In 2021 number of followers of GOBI Cashmere facebook page has increased by 100,000 followers.

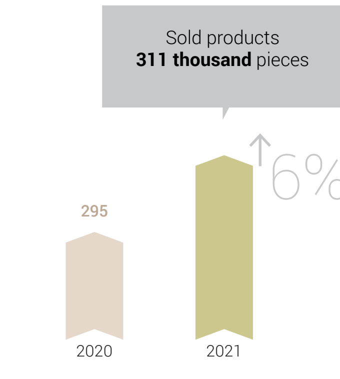
In 2021, we focused on reducing our inventory and. In 2022 we plan to work on the following main goals.

- Increase sales and profit margins
- Repair and renovate the factory's main store
- Use innovative marketing models
- Regularly release small collections in addition to the main collection

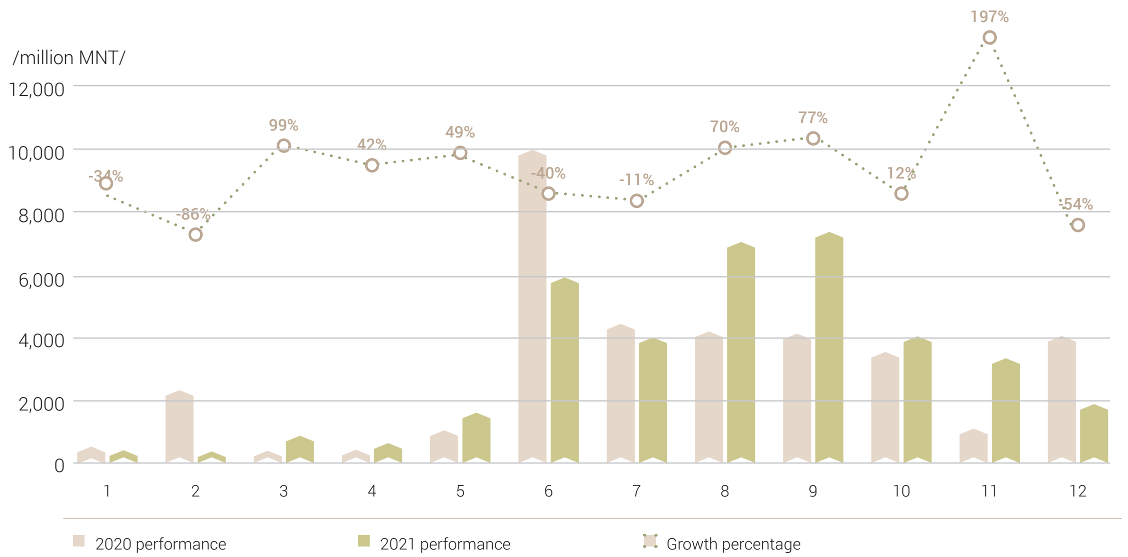
OVERSEAS MARKET

In 2021 overseas sales was 36.8 billion MNT, 2% increase compared to the previous year. Total of 311,000 products were sold in the market which shows 6% increase compared to the previous year.





SALES PERFORMANCE



In 2020 we supplied products to of 133 customers in total. While in 2021 it was reduced to 84 to increase productivity and prevent the risks of quarantine.

In the South Korean market we sell our products through Hyundai and CJ ENM home shopping. In 2021 we started to sell our products at two new channels in Japan, "Haneda-Tokyo television" and "Shop channel".

As of the end of 2021, there are 27 franchise stores operating in 23 cities in 9 countries.

FRANCHISE STORES:

Tokyo	Manzhouli	Irkutsk	Prague (2)
Ulanhot	Siyang (2)	Novosibirsk	Ankara
Fuzhou	Hong Kong (3)	Omsk	Istanbul
Hailaar	Seoul	Khabarovsk	Kiev
Huhhot	Busan	Kyzyl	Szczecin
Beijing	Ulan-Ude	Almaty	

By 2022, we aim to reduce the number of customers again, work with a small number of reliable customers who place mass orders and increase production productivity and profitability.

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The history of my relationship with Gobi JSC began in 2017 when I was hired as a Foreign Sales Manager. In 2019, we established a subsidiary, Gobi Cashmere America LLC in the United States and started warehousing operations. It has been successfully operating until today. Since 2020 I have been promoted to Overseas Sales Director. In 2020 all companies around the world were facing the need to overcome the difficult economic times associated with the pandemic. During this time, the Foreign Sales Department worked closely with its customers, setting a goal of zero receivables.

Since May 2021, I have been working as an Executive Vice President: E-Commerce. Regarding our online sales, from 2019 our company started to focus more into the e-commerce and everything was new for all of us. Looking back, entering into online market and sales was the right decision at the right time.

Even though we dont have enough experience in online sales, we are confident that all the learnings and experience we've accumulated by working with the largest companies in the world since 2019, will be helpful for us to become the world's number one cashmere brand.

The Gobi brand is already well-known in the domestic market, but we are a new brand that is not known to customers around the world. Therefore, in order to promote the Gobi brand globally, we need to incur high marketing costs. As our brand is being introduced, marketing costs will go down and we are aiming to be able to generate more sales at a lower cost. For example, we used to spend $88 per customer, but this cost has been decreasing year by year and in 2021 we could reduce it to $44. We are moving forward with the goal of further reducing these costs and making more sales.

Online sales team is filled up with young people who are full of knowledge and skills. Over the past two years, our team has been working with companies around the world, gaining experiences and working together to achieve sales goals and objectives. We are confident that with the skills, efforts and collaboration of each team member, we will be able to achieve our goals.

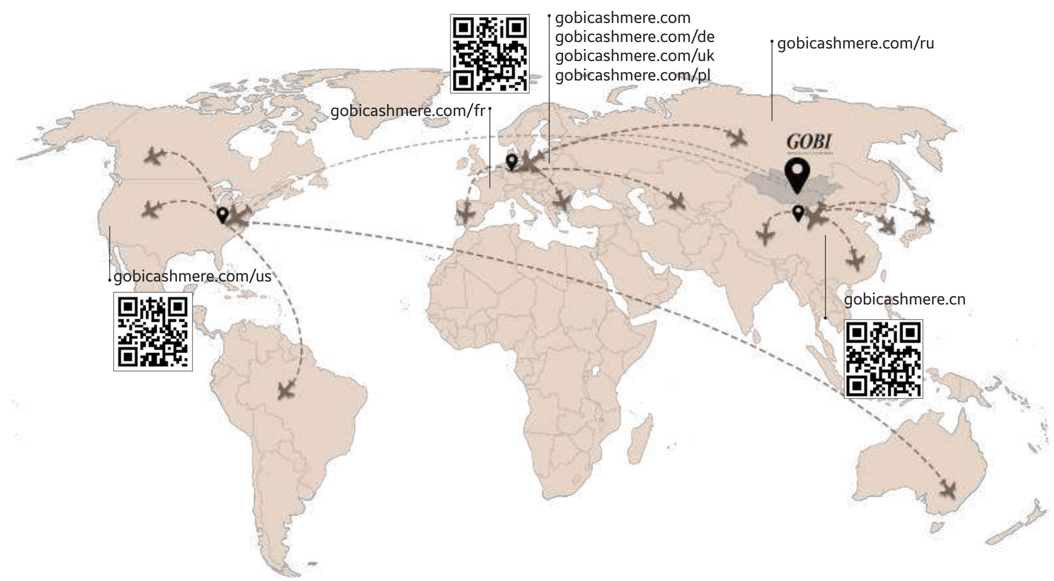
By 2022, the impact of the Covid-19 pandemic is expected to be reduced and the world economy will be recovered. We will continue to pursue a policy of establishing our subsidiaries in the United Kingdom of Great Britain and Northern Ireland to expand our market, reduce the cost of attracting new customers, increase the number of customers at low cost and increase sales.

Executive Vice President: E-Commerce,
MISHEEL. O

ONLINE SALES

Gobi JSC has developed its online sales channel focusing on three regions: European Union, United States and People's Republic of China. In 2021, we were able to increase our sales by 4.2 times from 2019 by working with the world's largest companies and increasing the number of customers by promoting the Gobi brand in the international market.

In order to make our online sales competitive in the global market and meet the needs of our customers, we are focusing on constant improvement of our warehousing and distribution system. Guaranteeing a very quick delivery of orders to our customers on top of having a wide range of product designs and sizes.



JANUARY

Opened 8 online stores. Gobi North America, Gobi International, Gobi Germany, Gobi Uk, Gobi France, Gobi Poland, Gobi Sweden, Gobi Norway

MAY

Partnered with World #1 Marketing Company "Ogilvy" to develop a Digital Strategic Plan.

JUNE

Incorporated 7 Facebook pages used in the US, Europe and the domestic market and is certified by Facebook.

JULY

Opened a branch in Australia.

JULY

The Berlin Warehouse has been connected to the FINECOM Warehouse System, which has improved warehouse operations. We are working on a contract terms to prepare 75% of customer orders on the day of registration and 100% on the next second day.

OCTOBER

The brand's image has been introduced by placing a video ad in Times Square, New York, USA.

NOVEMBER

Began selling its products at the Zalando, which is the Europe's largest marketplace.

OUR COMPANY
GOBI IN 2021
OUR OPERATION
SUSTAINABLE DEVELOPMENT
FINANCIAL STATEMENT

KEY INDICATOR CHANGES 2021/2020

Search engine	
Impression	1,641 million
Sessions	x 1.6
CR %	x 2.0
CPA	+ 3%

Social media	
Impression	238 million
Sessions	x 1.8
CR %	x 1.6
CPA	-37%

(note: "x"- by times)

IMPRESSION

Total digital marketing advertising that has reached customers

SESSION

Total number of visits to the online store

CR%

(Conversion rate) Percentage of purchases of the total web visits

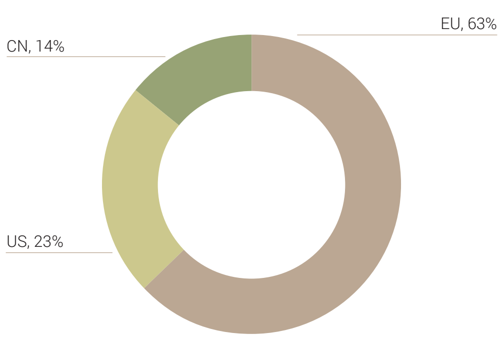
CPA

(Cost per Acquisition) Marketing costs per order

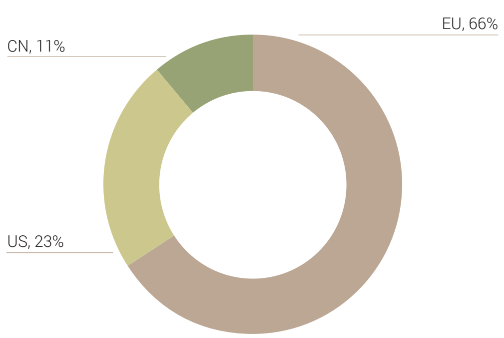
Order		
	Quantity /piece/	Increase /%/
Total	99,316	+ 47%
EU	62,300	+ 31%
US	22,884	+ 93%
CN	14,132	+ 75%

Sales		
	Amount /billion MNT/	Increase /%/
Total	40.9	+ 29%
EU	27.1	+ 19%
US	9.4	+ 65%
CN	4.4	+ 42%

ORDER



SALES



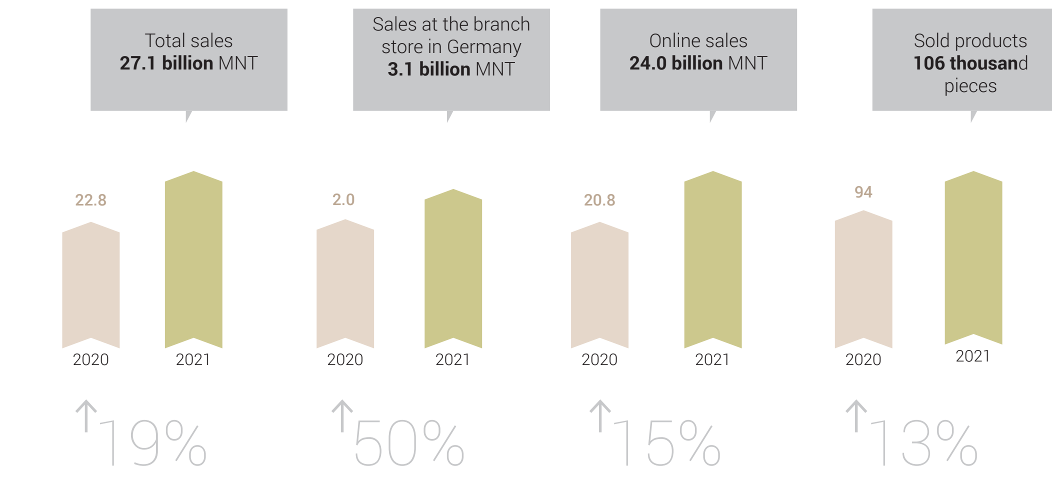
Number of designs	462	+ 20%	401	+ 20%	280	+10%
Number of ads reached per day	3.2 million	- 20%	510 thousand	- 57%	362 thousand	- 32%
Number of store visits per day	Over 26,000	+ 24%	Over 6,700	+ 39%	Over 9,600	+ 174%
Devices	Smart phone-74% computer-21% tablet-5%		Smart phone-67% computer-27% tablet-6%		Smart phone-99% computer-1%	

GOBICASHMERE.COM

European Union market had sales of 27.1 billion MNT, 19% increase compared to the previous year. The sales of branch store in Germany was 3.1 billion MNT which is a 50% increase.

In terms of online sales in 2021 it had sales of 24.0 billion MNT, 15% increase compared to the last year.

Total of 106,000 products were sold which is a 13% increase compared to the last year.

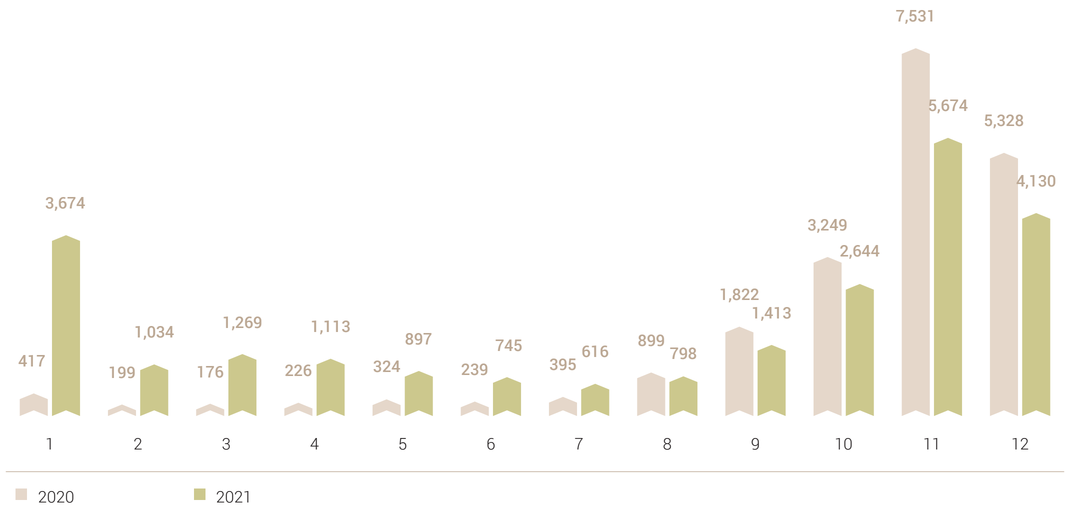


SALES PERFORMANCE /BY COUNTRY, CHANNEL/

WEBSITE, CHANNEL	Country	Sales /million MNT/		Increase /%/	Percentage of sales
		2020	2021		
www.gobicashmere.com/de	Germany	12,157	12,620	+ 3.8%	52.6%
www.gobicashmere.com	Other countries of Europe	3,681	4,616	+ 25.4%	19.2%
www.gobicashmere.com/uk	Great Britain	2,381	1,898	- 20.3%	7.9%
www.gobicashmere.com/ru	Russia	869.5	1,744	+ 100.6%	7.3%
www.gobicashmere.com/fr	France	855.5	1,497	+ 75.0%	6.2%
www.gobicashmere.com/pl	Poland	578.9	823	+ 42.2%	3.4%
www.gobicashmere.com/se	Sweden	198.5	36	- 81.8%	0.1%
www.gobicashmere.com/no	Norway	67	9	- 86.6%	0.0%
www.gobicashmere.com/ch	Switzerland	-	1		0.0%
Zalando	Germany	-	765		3.2%
TOTAL		20,788	24,008	+ 15.5%	100.0%

Sales of the branch store in Germany amounted to 3.1 billion MNT.

SALES PERFORMANCE /BY MONTH/



2021 HIGHLIGHTS

In May 2021, we worked with Ogilvy, the world's No. 1 marketing agency, to learn from their experience.

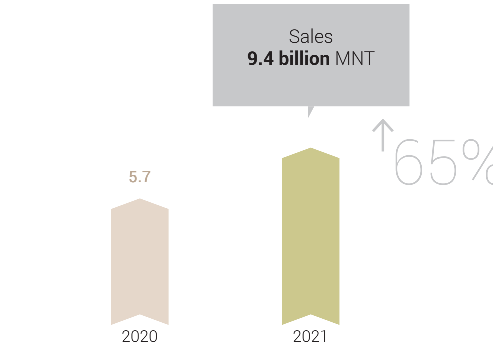
In August, we launched a partnership with Salesforce, a customer activation company, to expand our customer database and increase the number of customers and buyers.

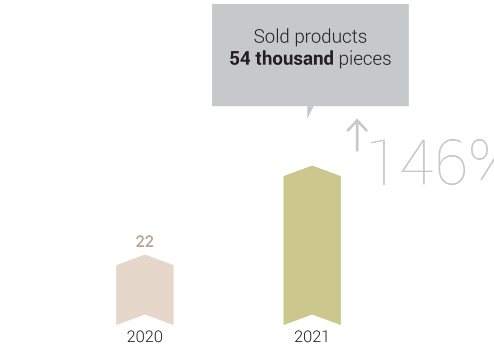
In order to have prompt delivery of products to customers, a contract was signed with the logistics company FINECOM. Currently products are being delivered from the warehouse to Europe within 1-2 days.

As part of the marketing campaign, we actively promoted the brand in Germany, Great Britain, Ireland, Russia and Poland in order to expand the brand's recognition.

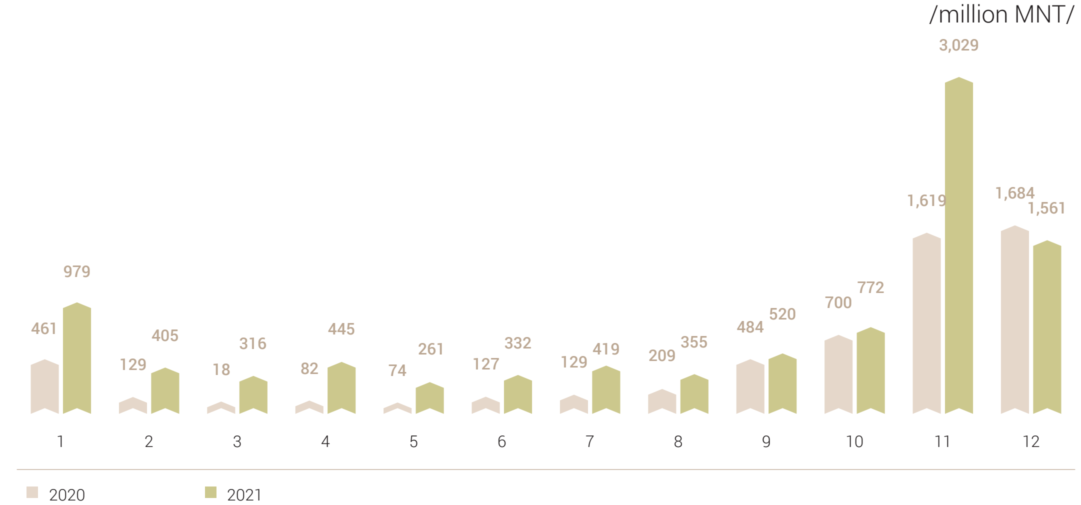
GOBICASHMERE.COM/US

US market sales was 9.4 billion MNT, 65% increase compared to the previous year. Total of 54,000 products were sold which is 146% increase.





SALES PERFORMANCE /BY MONTH/



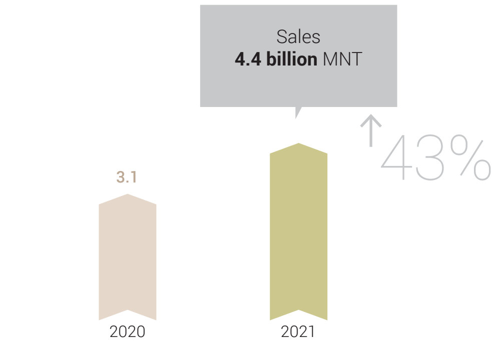
2021 HIGHLIGHTS

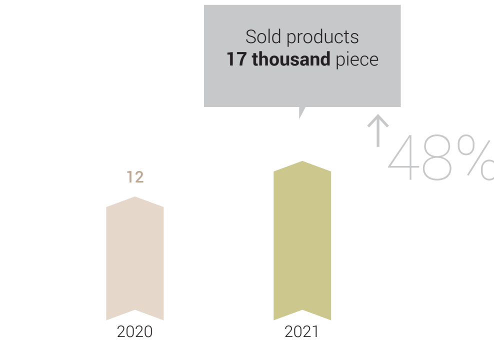
In August 2021, we partnered with Mannfolk PR Agency and started activities to increase brand awareness and attract customers through the digital and print media by influencing organic search engine.

In October, New York City's famous Times Square Billboard (under the famous Coca-Cola board) promoted our brand every 100 seconds for four weeks. We also advertised in print version on all of new york city's subways.

GOBICASHMERE.CN

Chinese market sales was 4.4 billion MNT, 43% increase compared to the previous year. Total of 17,000 products were sold which is 48% increase.

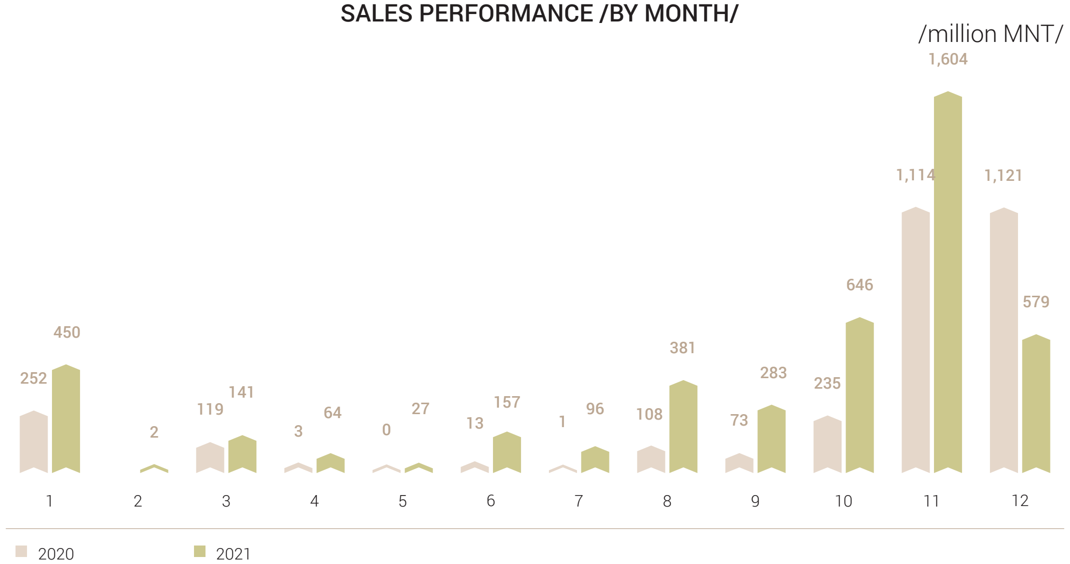




SALES PERFORMANCE /BY STORE/

Online store	Sales /million MNT/ 2020	Sales /million MNT/ 2021	Increase /%/	Sales percentage
Tmall	1,668	2,131	+ 28%	48.2%
Taobao	1,069	877	- 18%	19.8%
JD	254	637	+ 151%	14.4%
B2B	57	636	+ 1,008%	14.4%
Wechat	44	21	- 53%	0.5%
Tiktok	-	124	-	2.8%
TOTAL	3,093	4,426	+ 43%	100.0%

SALES PERFORMANCE /BY MONTH/



* In November 2021, the warehouse was closed for some time due to the impact of Covid-19. Return issues of that time affected the December sales performance.

2021 HIGHLIGHTS

We opened our official Gobi brand stores on the major online shopping platforms in the Chinese market.

Access to the TMALL | TAOBAO | JD | TIKTOK | WECHAT online platforms of Gobi in China from the main corporate website GOBICASHMERE.CN became available.

Started to promote our brand by outsourcing photography and content suitable with Chinese people's interests and aesthetic sensibilities.

In recent years, Influencers have become a major influence on Livestream customer purchases in the Chinese online shopping market and therefore have successfully partnered with Chinese influencers on the platforms of Tmall and Tiktok.

SUSTAINABLE DEVELOPMENT

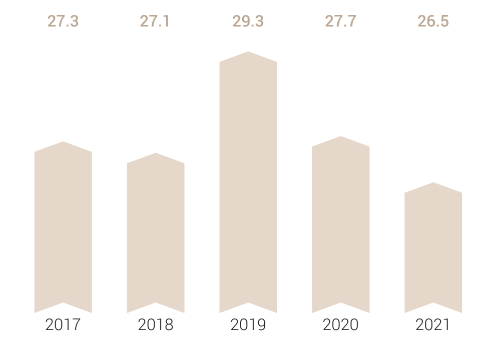
Environmental | Social | Governance

CASHMERE INDUSTRY

In 2021, 26.5 million goats were counted in Mongolia, which is a decrease of 1.2 million or 4 percent compared to the same period of the previous year. In 2021, Mongolia produced about 9.4 thousand tons of cashmere, which is 2.4 thousand tons or 21 percent less than the previous year and provides 48 percent of the world's raw cashmere. The average price of cashmere reached 127.5 thousand MNT, 90% increase from the previous year.

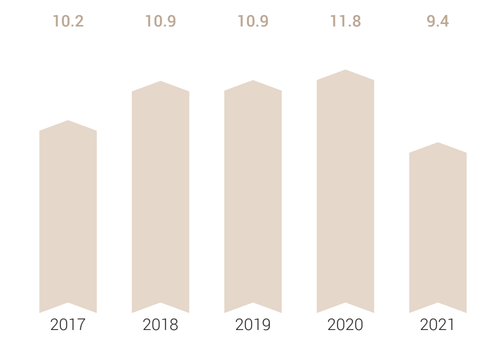
DATA ON CASHMERE INDUSTRY IN MONGOLIA FOR THE LAST 5 YEARS:

GOAT POPULATION OF MONGOLIA
/million/



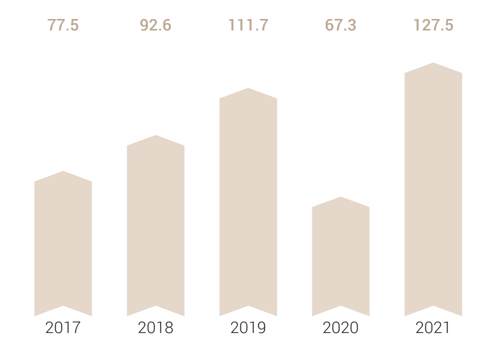
Source: National Statistics Office

RAW CASHMERE PREPARATION IN MONGOLIA /thousand MNT/



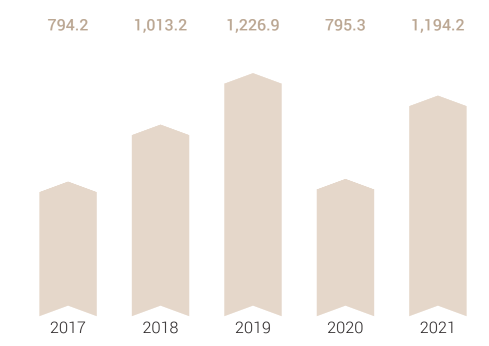
Source: National Statistics Office /by calculation method/

RAW MATERIAL AVERAGE PRICE
/thousand MNT/



Source: Mongolian Wool and Cashmere Association

CASHMERE INDUSTRY
/billion MNT/



/Calculated by the average price of raw cashmere/

SUSTAINABLE DEVELOPMENT MANAGEMENT

Gobi JSC aims to make a real contribution to the social and economic development of the country, respect business ethics, comply with relevant laws, promote fair and open competition and be a wealth creator who does not harm the environment and society.

In pursuit of sustainable development, we adhere to the following principles:

1. Respect human rights, uphold the rule of law and treat everyone equally and fairly
2. Increase employment, provide social welfare and assistance
3. Cooperate with the education sector
4. Carry out environmentally friendly activities
5. Support herders and suppliers
6. Create safe and healthy working environment for our employees, which is our major asset continuously train and develop them.

As a leading company in the wool and cashmere industry, Gobi JSC aims to prevent environmental risks to have adverse impacts, be socially responsible, work with herders and local organizations to support the sustainable use of pastures, introduce environmentally friendly technologies into its production and promote the rational use of resources.

By integrating and implementing key indicators of sustainable development in our operations, we will build a healthy feedback communication. Our company's business activities will grow continuously for a long time and our company will be the wealth creator for the future and future generation of the country. To this end our company established the Sustainable Development Agency in November 2021 to work at the Executive Management and Operational levels.

In the future, we plan to do the following for the sustainable development:

1. The Board of Directors will focus on environmental, social and governance issues to ensure sustainable development governance.
2. The company's sustainable development indicators are determined based on the United Nations Sustainable Development 17 Goals and the international GRI standard and aiming to assess the impact of sustainable development on all activities of the organization, define the company's Sustainable Development Policy and the responsibilities of the company's top management and strive to fulfill those commitments.
3. In 2022, 14,648 people/hour of internal training is planned for sustainable development. In the future, training and content will be continuously developed in order to improve the knowledge and understanding of sustainable development of all employees and stakeholders of the organization.
4. In 2022, the stability report will fully identify and develop the needs of shareholders, participants and stakeholders and will continue regular reporting.

HIGHLIGHTS FOR SUSTAINABLE DEVELOPMENT 2021

SUCCESSFULLY IMPLEMENTED THE "WORLD BRAND FROM HERDER'S HOME" PROJECT.

SFA /Sustainable Fibre Alliance/, EBRD /European Bank for Reconstruction and Development/ and Gobi JSC jointly implemented the "World Brand from Herder's Home" project in 2019-2021. The project not only contributed to the reduction and prevention of pasture degradation, the protection of wildlife and the development of sustainable cashmere farming in Mongolia, but also introduced the good practice certification system to "Delgerekhiin Ulaan Yamaa" cooperative in Delgerekh soum, Dornogovi aimag and "Zalaa Jinst Torgon Sureg" cooperative in Shinejinst soum, Bayankhongor aimag and supported the cooperatives to acquire and supply quality cashmere.

COMPLIED WITH THE C003 STANDARD "GOOD PRACTICES FOR PROCESSING PURE CASHMERE USING SUSTAINABLE METHODS".


SUSTAINABLE FIBRE ALLIANCE

CERTIFICATION OF ACCREDITATION

GOLD AWARD

GOBI JSC

Gobi JSC received a "SILVER CERTIFICATE" in 2020 and a "GOLD CERTIFICATE" in 2021 according to the "Best Practices for Processing Pure Cashmere Using Sustainable Methods" or the C003 standard provided by the International Coalition for Sustainable Wool and Cashmere. The C003 standard certifies that raw materials are sorted, washed and combed in a sustainable manner in accordance with international standards for human resource management, occupational safety and health.

JOINED THE "VOLUNTARY RULES OF SUSTAINABLE TEXTILE PRODUCTION".


CERTIFICATE

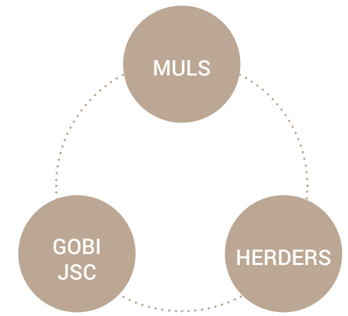
GOBI JSC

The Sustainable textile production and ecolabelling project /STeP EcoLAB/ and the Mongolian Wool and Cashmere Association have jointly developed the "Voluntary Rules of Sustainable Textile Production" in 2021.

Expressing its commitment to environmentally friendly and socially sustainable production, the Gobi JSC accepted and joined the provisions of the "Voluntary Rules of Sustainable Textile Production".

STeP EcoLab

IMPLEMENTED "SUSTAINABLE CASHMERE, TRIPARTITE JOINT PROJECT" FOR THE SECOND YEAR.



The University of Agriculture (currently named as the University of Life Sciences), herders and Gobi JSC are implementing the "Sustainable Cashmere, Tripartite Joint Project" for the second year in a row. The project aims to strengthen the link between Production-Herder-Science, to improve animal health, care, herding and breeding on a scientific basis, to improve the quality of cashmere raw materials and to increase the income of herder households by providing herders with good practices in goat cashmere production technology.

In 2021, Gobi JSC successfully implemented the "Sustainable Cashmere and Tripartite Joint Project" in Khuvsgul and Bayankhongor aimags in cooperation with scientists and teachers of the University of Agriculture with a 91.7% completion rate. A total of 51 male goats of the best breeds were handed over in order to increase the breeding and selection of goats in the two aimags. Pasture sustainability, animal health and quality of raw cashmere were more important than livestock numbers and prevention of animal diseases and support for winter preparations were carried out. Improvement of the gene pool of goats for the contracted herders in Khuvsgul and Bayankhongor aimags are carried out and a total of 1,129 offspring were received.

The project supported local suppliers of livestock products and a total of 1,500 livestock earrings, made in accordance with international standards, supplied to Khuvsgul and Bayankhongor aimags.

Gobi JSC organized a training trip for contracted herders in the two aimags, where the project is being implemented, to improve their knowledge on goat management and cashmere quality.

In order to further expand the scope of the project, we have signed a cooperation agreement and started the second phase of the project.

ENVIRONMENTAL

Gobi JSC introduced and implements the International Environmental Management System standard ISO 14001: 2015 and pursues a policy of introducing advanced technology into its production.

ENVIRONMENTAL MANAGEMENT

The implementation of the environmental management plan 2021 was evaluated by the Ulaanbaatar City Environment Department. Our company was evaluated at 97.3%.

Within the framework of the Environmental Management Plan 2022, 7 sub-plans and 2 programs have been approved by the Ministry of Nature, Environment and Tourism and are being implemented.

ELECTRICITY

In 2021, 8,775,781 kWh of electricity was used. Out which 497,440 kWh of electricity was saved through the implementation of planned energy saving measures, reducing total energy consumption by 5.6%. In the future, we aim to reduce total energy consumption and reduce greenhouse gas (CO2) emissions.

WATER

In 2021, a total of 109,158 tons of water was used by the organization, of which 14.5% or 15,867 tons of water met the sewerage standard. In the future, in 2022, we plan to operate the company's treatment plant at full capacity, filtering 250 m3 of water through a membrane filter in accordance with MNS 6162 and reuse 10% of the gray water for the use in toilets.

SOLID WASTE

A hazardous waste disposal site has been built throughout the organization. Also by placing battery waste collection boxes at 12 locations and delivering 1,020 batteries to a professional organization, 8,160,000 liters of fresh water and 1,020 m3 of soil were prevented from being contaminated.

Within the framework of waste management, 114 tons of ordinary waste was generated and 22.8 tons or 20% of the total waste was delivered to the recycling site. In the future, we aim to recycle 30% of the total waste and reduce waste.

GREEN CONSTRUCTION AND REHABILITATION

Planted 3 types of 790 woody plants such as elm, barberry, lilac in 6% of the organization total area, which contributes to reduce air pollution and dust, as well as creating comfortable environment. We aim to increase green space up to 10% of the total organization area in the future.

Gobi JSC | ANNUAL REPORT 2021

SOCIAL

Within the framework of social responsibility, Gobi JSC values equality, accessibility and transparency, implements sustainable value chain management and adheres to occupational safety and health gradually.

EQUALITY

The organization has a policy of equal opportunities, equal participation and equal pay. Women make up 56% of our management team.

ACCESSIBILITY

We have always strived to provide jobs for people with disabilities. By 2021 we have 18 employees with disabilities.

SOCIAL RESPONSIBILITY AND TRANSPARENCY

- Gobi JSC receives and resolves all the complaints from the stakeholders. In 2021, 99% of all incoming complaints were resolved.
- On International Children's Day, Gobi JSC delighted overall 3,100 children including our staff's children and children of "Magic Mongolia" project.
- Expressed gratitude by serving hot drinks and food to the police officers, hospital workers and professional inspection staff who were working under pandemic emergency state.
- The company provided food and coal support to 179 single households. During Covid-19 pandemic, 10 day vitaminization campaign was organized to immunize staff.

SUSTAINABLE VALUE CHAIN MANAGEMENT

- Gobi JSC conducts procurement from the overseas market and domestic suppliers. We work with more than 160 suppliers, from small and medium-sized businesses to large national manufacturers. It accounts for 70% of all our partner organizations.
- Gobi JSC supports Green Procurement within the framework of the "Green Gobi, Green World" goal and selects suppliers and concludes agreements in accordance with the Company's procurement policies and procedures.
- As part of our efforts to improve the capacity of domestic suppliers, we have been providing information on international standards and new technologies, as well as being flexible in terms of delivery time, payment terms and supporting domestic production.
- Starting from 2022, we aim to implement the "Sustainable and Traced Raw Materials" program. Under this program, by 2023, we will produce end products from 100% stable and traceable raw materials and supply them to the global market.

OCCUPATIONAL SAFETY AND HEALTH

- In our operations, we adhere to the principle of "Safety First", manage HSE knowledge and skills by managing occupational health and safety risks, providing adequate resources, improving working conditions and ensuring the participation of all employees.
- The company conducted 304 workplace risk assessments and implemented workplace risk management at each site, which became the basis for accident-free operation.
- In 2021, the goal of keeping industrial accidents and overdue injuries at "zero" point was fully accomplished and worked for 3,407,040 man/hour without accidents. 27,887 man/hour of training and instruction were provided to 7,339 employees. We will continue to adhere to the principles of "Safety First" and work for the goal of "accident-free" while maintaining the health of all employees.

HEALTH

- In cooperation with the National Center for Blood Transfusion Research and the Red Cross Committee of Khan-Uul district, we organized a Blood Donor Day on March 15, 2021 and donated a total of 12 liters of 950 ml of blood.
- The Health Program regularly conducts measures to keep the employees healthy, prevent from occupational diseases in the workplace, treat, nurse and prevent them. In order to monitor the health of all employees, early detection of common and occupational diseases was undertaken. In 2021 total of 1,322 employees underwent periodic medical examinations. No common and occupational diseases were occurred.

COVID 19

During the Covid-19 pandemic, Gobi JSC took the following measures internally to ensure the health and safety of its employees.

1. Three staged vaccination was organized. 95% of the employees received the first dose, 94% received the second dose and 48% received the third dose of vaccine.
2. From January 25, 2021 the company's hospital started the Covid-19 testing in order to detect positive cases at early stage and taking immediate actions,
3. In order to support the employees' immunity, they were provided with vitamins, special attention was paid to the ingredients and quality of the food and juices and immune-boosting foods were provided.
4. Disinfection doorways were installed at the company office entrances. Disinfection cleaning was carried out regularly by a technical organization.
5. Ensured the company's continued operation by coordinating remote working and working in shifts.

By the 6 inspection conducted from the State Special Commission and the Capital City Special Commission, Gobi JSC had no impropriety.

ORGANIZATIONAL CULTURE SURVEY

Within the framework of the organization's internal social work, Gobi JSC conducts an annual satisfaction survey and implements the necessary measures. In 2021, we updated the survey to an organizational culture survey and conducted twice a year, semi-annually. Planned the results of the study and the activities that need to be improved and updated throughout the organization. Plan was discussed at the Remuneration Committee meeting where the comments and recommendations of the members were taken into account. In 2022, we are planning to focus on reforming the remuneration system, human development and creativity.

TOTAL NUMBER OF EMPLOYEES

1,527

ADMINISTRATION	FACTORY	SALES	SUBSIDIARY
235	1,029	237	26

GENDER RATIO

29% 71%

EDUCATION LEVEL

725 477 325

MATERNITY LEAVE

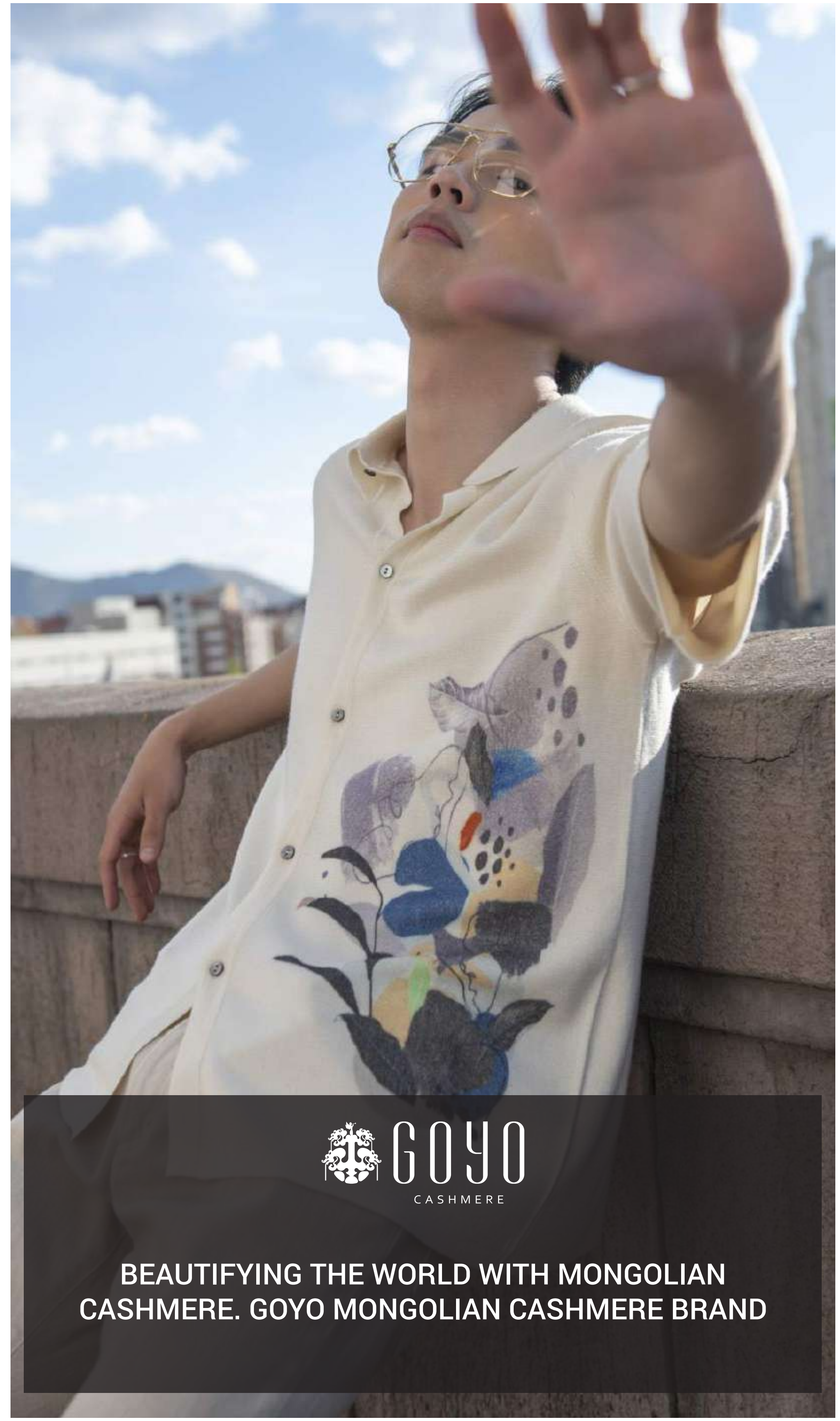
438

DUPLICATE NUMBER OF INTERNAL AND EXTERNAL TRAININGS

10,654

NUMBER OF EMPLOYEES AWARDED BY THE STATE HIGHEST MEDAL, COMPANY AWARD

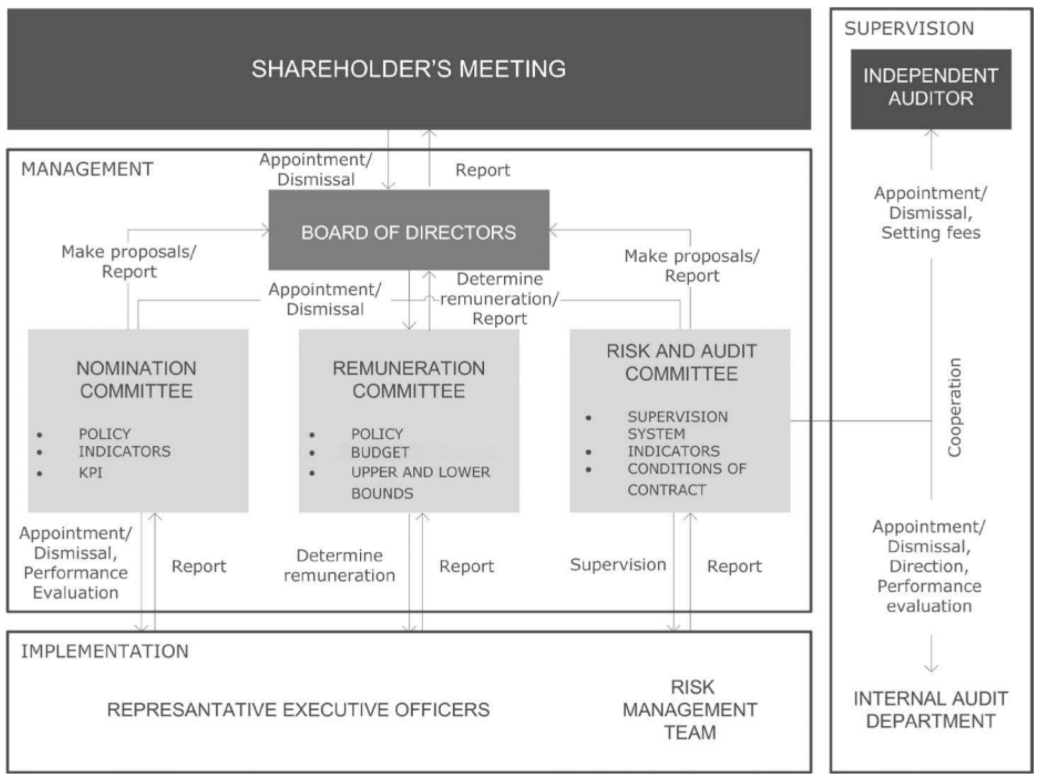
299



GOVERNANCE

GOVERNANCE STRUCTURE, OPERATION

Gobi JSC's governance is structured and designed to align and balance the interest of shareholders, management and other stakeholders with the key targets and mission of the company. The governance structures within the company serve to audit and review operations and execute tasks and policies.



In 2021, we have taken the following measures to strengthen corporate governance.

1. The committees under the Board of Directors did the following within the scope of their functions:
   - Conducted the Board of Director's self-evaluation.
   - Conducted Governance self-evaluation and reported publicly through the Mongolian Stock Exchange and the company's website.
   - Approved the following documents such as: Internal control policy document, Executive Management Procedures, Executive Management Succession Procedures, External Audit Appointment Procedures and Conflict of Interest Regulations.
2. To protect the interests of our shareholders, the following works have been done:
   - Improved the information content of the annual report.
   - Updated our website and expanded its content and information /info.gobi.mn/.
3. In order to improve the Board of Director's internal operations, established the Board Office consisting of two people, a Board secretary and a Board specialist.

GOVERNANCE SELF EVALUATION

Our company conducted governance self-evaluation using the "Corporate Governance Code Evaluation Questionnaire" for joint stock companies approved by the Mongolian Stock Exchange for the fifth year in a row.

OVERVEIW OF GOBI JSC GOVERNANCE EVALUATION

№	Basic principles	Number of questions	Target score	Actual Result /2021/				Implementation percentage /Last 3 years/		
				Document		Implementation		2019	2020	2021
				Actual score	Percent	Actual score	Percent			
A	Shareholder's rights, Shareholder's meeting	20	40	38	95.0%	34	85.0%	83.8%	86.3%	90.0%
B	Equality of shareholders	10	20	20	100.0%	19	95.0%	95.0%	95.0%	97.5%
C	Stakeholders	10	20	19	95.0%	17	85.0%	80.0%	87.5%	90.0%
D	Transparency	20	40	39	97.5%	34	85.0%	88.8%	91.2%	91.2%
E	Board of Directors	30	60	59	98.3%	54	90.0%	85.9%	87.5%	94.2%
F	Executive management	10	20	19	95.0%	17	85.0%	82.5%	87.5%	90.0%
	Total	100	200	194	97.0%	175	87.5%	86.0%	89.2%	92.2%

Overall, Gobi JSC's overall governance rating for 2021 is 92.2%, which indicates that it has good governance or normal corporate governance.

We reported our detailed governance evaluation to shareholders and the public through the Mongolian Stock Exchange and the company's website.

FURTHER ACTIONS TO IMPROVE CORPORATE GOVERNANCE

For us, the annual governance self-evaluation identifies measures that need to be further improved, which contributes to the further improvement of corporate governance. Based on the 2021 governance evaluation results the following activities and works need to be implemented:

- Nominate and elect board members through transparent and open process;
- Introduce to the shareholders meeting the administration remuneration, large and conflict of interest transactions, information about external auditor;
- Regularly update shareholder's e-mail addresses, have a database for their contacts and deliver shareholders' meeting announcements and materials by an e-mail as much as possible. Further improve possible e-communication options;
- Improve the content of the company's code of conduct on the mechanism of direct contact with the board of directors regarding illegal and unethical activities within the company and ensure its implementation;
- Update the policy on company's key management selection process and their remuneration;
- Further improve the content and scope of information by ensuring the implementation of information operating procedures;
- Study international best practices and provide information on the website in English for the benefit of foreign investors;
- Improve the control system to ensure the security of internal information;

SHAREHOLDERS

SIGNIFICANT SHAREHOLDERS

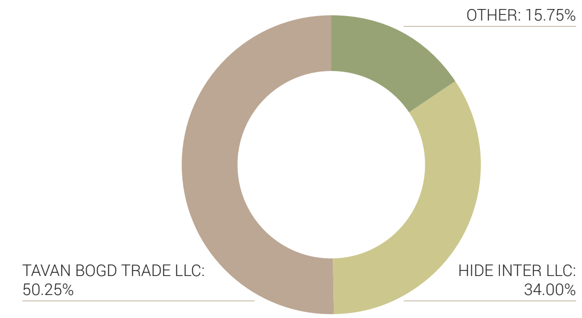
HIDE INTER LLC	34.00%	265,238,300 pieces
TAVAN BOGD TRADE LLC	50.25%	392,028,206 pieces

TOTAL NUMBER OF SHARES

780,112,500

TOTAL NUMBER OF SHAREHOLDERS /by 2021.12.31/

21,616



HIDE INTER LLC operates in the field of investment. (Japan)

TAVAN BOGD TRADE LLC is the holding company of the Tavan Bogd Group of companies. Founded in 1997 Tavan Bogd Trade LLC's function is to operate as a parent entity in charge of strategic direction, new business development, support and investment in its subsidiary company operations.

Tavan Bogd Group, Mongolian leading group company, has been successfully leading total of more than 11,000 employees and 21 subsidiaries, 4 investment companies

TAVAN BOGD GROUP BRANCH COMPANIES

FINANCIAL SERVICES

FOOD PRODUCTION AND SERVICES

INTERNATIONAL TRADE AND SERVICES

TOURISM AND HOSPITALITY

MANUFACTURING

DISTRIBUTION

OUR COMPANY
GOBI IN 2021
OUR OPERATION
SUSTAINABLE DEVELOPMENT
FINANCIAL STATEMENT

INFORMATION OF RELATED PARTY

No	Company	No	Company	No	Company
1	Tavan Bogd Trade LLC	13	Juulchin Duty Free JSC	25	Tavan Bogd Capital LLC
2	Tavan Bogd International LLC	14	Tavan Bogd LLC	26	Tavan Bogd Building Supply LLC
3	Ulaanbaatar Flour LLC	15	Tavan Bogd Hot Pot LLC	27	Tavan Bogd Invest LLC
4	Ulaanbaatar Print LLC	16	Tavan Bogd Solutions LLC	28	Tavan Bogd Mon Meet LLC
5	Tavan Bogd Foods LLC	17	Tavan Bogd Tire LLC	29	Sergelen Resort LLC
6	Tavan Bogd Foods Pizza LLC	18	Five Stars in Kharkhorin LLC	30	Khan Bank LLC
7	Khan Palace LLC	19	Food Service Solutions LLC	31	Tok Tok LLC /Digital Aggregator LLC/
8	Tavan Bogd Smart Electronics LLC	20	Tavan Bogd Property LLC	32	Support Service Mongolia LLC
9	Juulchin LLC	21	Tavan Bogd House LLC	33	CNT Telestar LLC
10	Airlink Mongolia LLC	22	Tavan Bogd Residence LLC	34	ZAMine Services LLC
11	Tavan Bogd Washyoku LLC	23	Mon Beef LLC		
12	Mongol Machine Concern LLC	24	Tavan Bogd Finance LLC		

BENEFICIAL OWNER INFORMATION

No	Full name	Citizenship	Ownership percentage	
			Alone	Related party
1	BAATARSAIKHAN Tsagaach	Mongolia	0.006%	Tavan Bogd Trade LLC 50.25%
2	SAWADA Hideo	Japan	-	Hide Inter LLC 34.00%

SHAREHOLDER'S MEETING

The main form of exercising the shareholders' rights of Gobi JSC is the Shareholders' Meeting and the Shareholders' Meeting is the highest governing body of the company. The Company's shareholders meeting shall discuss and resolve key issues related to the authority of the company's management and operations specified in Article 62.1 of the Company Law and determined by the Board of Directors or the company's charter to be discussed and resolved by the shareholders meeting.

ANNUAL MEETING

The Annual shareholders meeting of Gobi JSC was held on April 24, 2021 at 11:00 am at the company office. Due to the global quarantine of Covid-19, Gobi JSC successfully held its annual shareholders' meeting online for the second year in a row and broadcasted it live on its official Facebook page. A total of 136 shareholders with 88.42 percent of votes participated and the meeting considered as valid. The following issues were discussed and approved by the meeting.

1. The Board of Directors discussed the conclusion of the company's operations and financial statements for 2020 and approved by 100% vote the conclusion that "Gobi JSC's executive management team has fully used its resources to achieve planned goals in 2020".

BOARD OF DIRECTORS

The Board of Directors of Gobi JSC is the governing body of the company during the free time of the shareholders meeting and protects the rights of shareholders, provides general management, directs, supervises and implements the company's activities. Every year, the Board approves the company's strategic goals and business plan, monitors the implementation of the plan in monthly reports and provides relevant responsibilities and guidelines. In addition to establishing a permanent Risk Audit Committee, Nomination Committee, Remuneration Committee and implementing corporate governance, the Risk Audit Committee has an Internal Audit Department and conducts internal audits throughout the company.

RISK AND AUDIT COMMITTEE

The purpose of the Risk and Audit Committee under the Board of Directors is to monitor the organization's accounting, auditing activities, accuracy of financial statements, internal control of the company, accounting standards of regulations, compliance with relevant laws and regulations and define risk management policies and strategies. Oversee the Board of Directors by overseeing the implementation of risk management, evaluating and selecting the professional skills and independence of independent auditors to create conditions for the implementation of its functions. Overseeing the implementation of risk management, evaluating and selecting the professional skills and independence of independent auditors to create conditions for the implementation of its functions.

NOMINATION COMMITTEE

The purpose of the Nomination Committee under the Board of Directors is to select the Board of Directors, the Chief Executive Officer, other executives and key managements, to define their roles and to evaluate the performance of the company for help.

REMUNERATION COMMITTEE

The purpose of the Remuneration Committee under the Board of Directors is to formulate and determine the salaries and bonuses of the Board of Directors, the CEO, other executives and key management, to determine the salary and bonus policy of the company and to enact laws and regulations. To assist them in carrying out their duties in making recommendations and conclusions in accordance with the regulations.

STRUCTURE

Chair of the Risk and Audit committee: Independent Board member B.Nandin-Erdene

Members:

Independent Board member A.Jargalmaa

Regular Board member D.Khulan

STRUCTURE

Chair of the Nomination committee: Independent Board member M.Bayar

Members:

Independent Board member D.Gerelmaa

Regular Board member Ts.Baatarsaikhan

STRUCTURE

Chair of the Remuneration committee: Independent Board member D.Gerelmaa

Members:

Independent Board member Takeshi Kambe

Regular Board member J.Oyunchimeg

BOARD OF DIRECTORS

GERELMAA Damba

Chairwoman, Independent member

/Chair of Remuneration committee, Member of Nomination committee/

Professor of Business Administration Department, University of Finance and Economics of Mongolia

BAATARSAIKHAN Tsagaach

Regular member

/Member of Nomination committee/

President of the Tavan Bogd Group, CEO of Gobi JSC

KHULAN Dashdavaa

Regular member

/Member of Risk and Audit committee/

Executive Vice President of the Tavan Bogd Group

KAMBE Takeshi

Independent member

/Member of Remuneration committee/

Manager of Asahi Life Insurance company, Japan

NANDIN-ERDENE Banzragch

Independent member

/Chair of Risk and Audit committee/

Senior lecturer of Business Administration Department, University of Finance and Economics of Mongolia

SAWADA Hideo

Regular member

President of H.I.S Group, Japan

OYUNCHIMEG Javzandolgor

Regular member

/Member of Remuneration committee/

Chief Marketing Officer, Tavan Bogd Trade LLC

JARGALMAA Altangerel

Independent member

/Member of Risk and Audit committee/

GAPE, ACCA senior lecturer, head of the program

BAYAR Myagmar

Independent member

/Chair of Nomination committee/

Head of Light Industry Technology and Engineering, Mongolian University of Science and Technology

OUR COMPANY
GOBI IN 2021
OUR OPERATION
SUSTAINABLE DEVELOPMENT
FINANCIAL STATEMENT

BOARD OF DIRECTOR'S WORK REPORT 2021

The Board of Directors held a total of 6 regular meetings and 20 special meetings in 2021, adopted 39 resolutions and within the scope of it functions provided recommendations and tasks to the management and monitored their implementation. In addition, the committees under the Board of Directors regularly presented their work reports at the board meetings and the committee meetings were organized successfully on time and the members were initiative and active. Due to Covid-19 pandemic board meetings and committee meetings were usually held remotely.

Category	Approved resolution	Date
Expanding operations, investment	Approval of establishing branch in Australia	2021.07.05
Internal operations of the company	Board of Directors Award	2021.01.21
	Funding amount for subsidiaries to be approved by the Board of Directors	2021.01.21
	Company's 2021 business plan	2021.01.28
	Dividend	2021.02.09
	2021 conflict of interest and related party agreements	2021.02.09
	Annual shareholder's meeting	2021.03.12
	Appointing census commission	2021.03.12
	Cooperation permission	2021.03.15
	Additional provisions to the shareholder's meeting procedure	2021.04.16
	Cooperation permission	2021.04.28
	Cooperation permission	2021.07.29
	Selecting external audit firm	2021.08.26
	Opening account and disposing funds authorization	2021.08.27
	Executive management procedure	2021.09.27
	Executive management succession policy	2021.09.27
	External audit appointing procedure	2021.09.27
	Resolving conflict of interest procedure	2021.09.27
	Internal control policy document	2021.10.26
	Board of Director's award procedure	2021.10.26

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Category	Approved resolution	Date
Financing	Amendments to the Khan Bank loan agreement	2021.02.04
	Amendments to the Trade and Development Bank loan agreement, continue to pledge assets	2021.03.10
	Extend loan package agreement, make amendments, continue to pledge assets	2021.03.22
	Amendments to the Khan Bank loan agreement	2021.05.14
	Amendments to the Trade and Development Bank loan agreement	2021.06.17
	Permission to enter into credit line agreement with Tavan Bogd LLC	2021.08.12
	Allow bond issuance	2021.08.26
	Amendments to the Trade and Development Bank loan agreement	2021.10.20
	Amendments to the Golomt Bank loan agreement, continue to pledge assets	2021.11.10
	Additional agreement with the European Bank for Reconstruction and Development	2021.11.18
	Amendments to the Khan Bank loan agreement	2021.11.25
	Loan from XacBank	2021.12.03
	Amendments to the Golomt Bank loan agreement, continue to pledge assets	2021.12.03
	Change in the provision of the agreement with European Bank for Reconstruction and Development	2021.12.15
	Additional collateral to the International Investment Bank	2021.12.15
	Allow bond issuance	2021.12.15
Human resources	Dismissal of the Chief Executive Officer of Goyo LLC	2021.04.16
	Appointment of Chief Executive Officer of Goyo LLC	2021.04.16
	Establishing Board office and appointing	2021.09.27

BOARD COMMITTEES REPORT

RISK AND AUDIT COMMITTEE

2021 WORK REPORT

In 2021, the Risk Audit Committee organized 4 regular meetings and 1 special meeting, discussed 17 issues. Within the scope of its functions, the Committee provided 7 types of recommendations and tasks to relevant officials, departments and monitored them.

This year, within the company's function of improving risk management and internal control systems, the committee reviewed the financial statements and the independent auditor's recommendations on accounting and monitored the implementation of the recommendations.

A new internal control policy document and a procedure for appointing an external audit were also updated and approved. Reviewed the performance of the risk management team and the internal audit department, as well as semi-annual and annual work reports and provided guidance.

In the selection of the external auditor, the committee members evaluated and voted in accordance with the independence criteria and the external auditor was selected by the Board of Director's meeting. Committee also approved the 2022 activities and salary budget of the internal audit department.

NOMINATION COMMITTEE

2021 WORK REPORT

In 2021, the Nomination Committee organized two regular meetings and discussed 8 issues. In addition, within the scope of its functions, the committee provided 11 types of recommendations and tasks to the management.

This year, the committee reviewed the annual and semi-annual reports of the management team, reviewed the conclusions of the CEO and made recommendations for improvement. Based on the annual report and performance of the management team, two successful leaders were nominated for the award of the Board of Director's and awarded them after discussed at the Board meeting. The 2021 board self-evaluation was conducted and based on the results, further actions were taken to improve the performance of the board and committees. Conducted governance self-evaluation and publicly reported through the Mongolian Stock Exchange and the company's website.

REMUNERATION COMMITTEE

2021 WORK REPORT

In 2021, the Remuneration Committee organized two regular meetings, discussed and resolved 8 issues. In addition, within the scope of its functions, the committee provided 10 types of recommendations and tasks to the management.

This year, the committee reviewed the work reports for remuneration and social welfare and the results of the organizational culture survey and gave recommendations.

In accordance with the committee's functions, it monitored last year's salary and bonus performance and approved the salary and bonus budget of 2022.

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2021 BOARD OF DIRECTORS MEETING

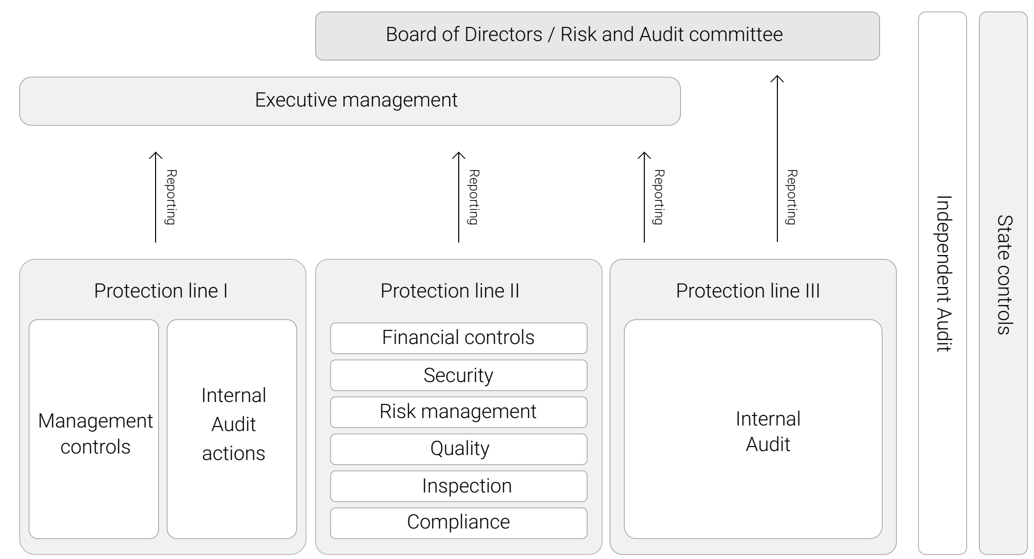
№	Date	Regular meeting	Attendance	Special meeting	Attendance	Total number of resolutions approved
1	2021.01.21	*	100%			2
2	2021.01.28			*	100%	1
3	2021.02.04			*	100%	1
4	2021.02.09	*	100%			2
5	2021.03.10			*	100%	1
6	2021.03.12			*	100%	2
7	2021.03.15			*	100%	1
8	2021.03.22			*	100%	1
9	2021.04.16	*	100%			3
10	2021.04.28			*	100%	1
11	2021.05.14			*	100%	1
12	2021.06.17			*	100%	1
13	2021.06.22	*	100%			-
14	2021.07.05			*	100%	1
15	2021.07.29			*	100%	1
16	2021.08.12			*	100%	1
17	2021.08.26	*	100%			2
18	2021.08.27			*	100%	1
19	2021.09.27			*	100%	5
20	2021.10.20			*	100%	1
21	2021.10.26	*	100%			2
22	2021.11.10			*	100%	1
23	2021.11.18			*	100%	1
24	2021.11.25			*	100%	1
25	2021.12.03			*	100%	2
26	2021.12.15			*	100%	3
	Total	6		20		39

Note:
Two members in Japan receive information related to regular and special board meetings via e-mail and send their comments by e-mail. Therefore, attendance is calculated as valid.

Gobi JSC | ANNUAL REPORT 2021

INTERNAL AUDIT SYSTEM

Our company is improving its operations in accordance with the "III Protection Lines" model. This model is important for hierarchical managers to perform their core day-to-day planning, execution, reporting, monitoring and coordination functions.



Protection Line I

The company's core operations carry out and report on a daily basis in accordance with the functions assigned by the Executive Management.

Protection Line II

The units that support the company's core operations also carry out and report on daily monitoring in accordance with the functions assigned by the Executive Management.

Protection Line III

Ensures that the internal control system implemented by the executive is implemented and appropriate and reports to the Risk and Audit Committee as the main function and to the Executive as the administration.

Thus, double reporting in accordance with its functions ensures the independence of the Internal Audit and is free from objective and undue influence.

INTERNAL AUDIT DEPARTMENT

Aim:

Conduct continuous improvement of audit activities in accordance with modern trends, best practices and professional standards, constantly update the methods, methodologies, policies and procedures of certification and consulting activities tailored to the specifics of the company and improve company activities and increase its value by establishing good audit practices.

Reporting

The Internal Audit Department of Gobi JSC monitors all the company's activities independently of the Executive Management Team and reports quarterly to the Risk Audit Committee under the Board of Directors.

Activities

In line with the International Professional Practice Framework (IPPF), it implements governance, internal control, risk system assessment and certification, consulting and auditing quality assurance activities, provides management with objective information and supports the implementation of its oversight functions.

Works completed in frame of the planned work in 2021

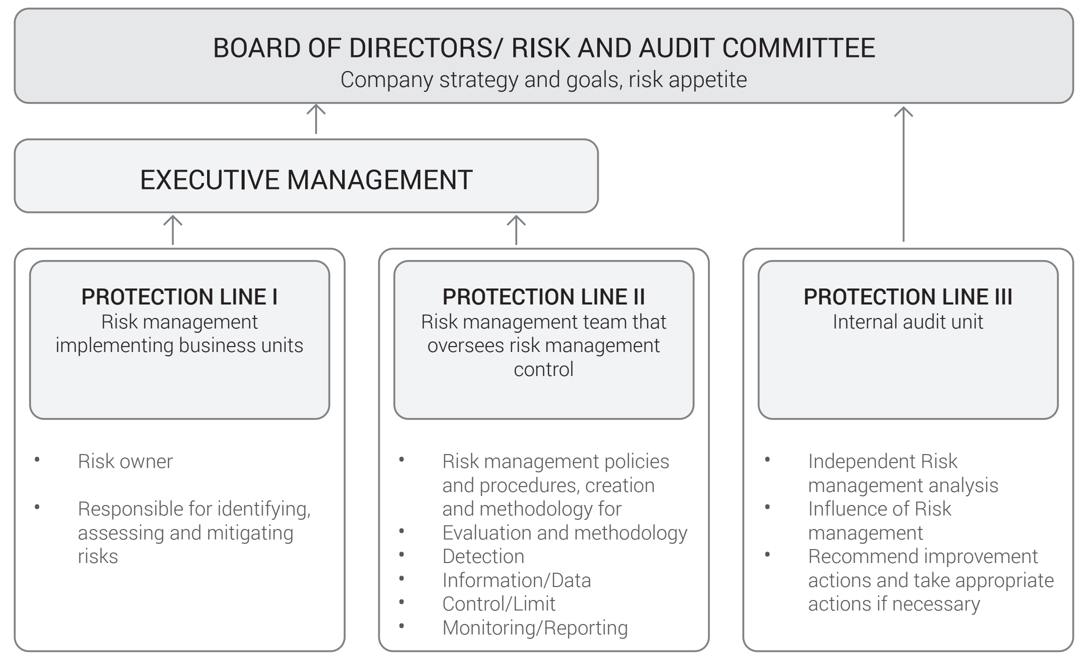
- A total of 63 issues were identified during the validation process and the risks and causes were identified and suggestions and recommendations were provided. In 2021, for the first time, information technology audit and monetary value audit were planned and implemented, which is considered to be an important direction for further activities.
- The monitoring reviewed the implementation of 57 recommendations in 6 sets. Overall, implementation was 84.2% to address identified issues, reduce risks and improve outcomes.
- The consulting service is consulted with the executive management and cooperated by providing necessary recommendations.
- The effectiveness of the corporate governance, internal control and risk management systems was assessed in accordance with International Standards for Professional Internal Auditing and recommendations and support were provided for the purpose to increase the value of the company and to improve continuously.
- It is planned to conduct an internal evaluation of the internal audit quality assurance, identify and prioritize the activities of the department and the internal audit activities and perform it within 2022.

RISK MANAGEMENT

The primary purpose of risk management is to increase the return on assets of a company's risk-adjusted assets through the allocation, identification, measurement and control of assets to business segments in relation to the risk/return ratio. This process of risk management is important for continuous profitability and is aimed at maintaining, successfully implementing, monitoring and continuously improving the management system in line with the company's overall concept and values.

RISK MANAGEMENT STRUCTURE AND MANAGEMENT

The risk governance structure of the company's risk management system will be governed by a "three-tiered protection line" and will be managed by the upper levels of committees and units.



Implementing risk governance responsibilities and integrated oversight is one of the main goals of the Board of Directors. The Risk Management Team, which is appointed by the Risk and Audit Committee of the Board of Directors, is responsible for the protection of the Risk Management Line 2. The risk management team consists of the company's executives and is headed by the First Deputy Director. The risk management team monitors and manages the risk on a quarterly basis in accordance with the risk acceptance standards within the risk management policy set by the Board of Directors.

WORKS COMPLETED IN 2021 WITHIN THE RISK MANAGEMENT

Within the framework of the goal of fully implementing the risk management activities in the organization:

PROMOTE DISTRIBUTION OF RISK MANAGEMENT CULTURE

- “The Risk Culture” survey was conducted for the first time and works were carried out to improve the risk culture.
- Provide staff with proper knowledge and understanding of risk management and develop continuously.

RISK MANAGEMENT SCOPE

- Provide managers with the necessary risk-based information by developing a risk management plan to manage risks and to conduct a detailed risk analysis and assessment after establishing the unified risk records throughout the company.
- The appointment of the risk management team was renewed in accordance with the organizational structure.

RISK MANAGEMENT DURING THE COVID-19 PANDEMIC

The Covid-19 pandemic is one of the most difficult challenges facing the world today, with a major impact on public health, society, the economy, the financial system and the business environment. During this pandemic, the following actions were taken by the company to respond to emergencies and force majeure.

- Developed the business continuity plan for disaster protection and implemented in potential cases.
- Implementing the Amoeba management system aimed at increasing unit productivity and efficiency.

In addition, depending on the company’s operations, the following measures were taken in 2021.

Areas of activity	Financial management	Overseas/Online sale	Domestic sale	Production/ Supply	Activities
Risks incurred	• Loss of income and expenditure ratio, lack of cash flow and the loan balance is not decreased as planned due to the unsatisfactory financial ratios and sales revenue didn’t reach the planned level.	• Due to the pandemic, warehousing suspended and became unavailable to deliver goods to customers due to partial curfews. • Due to the impossibility of transporting goods to China by rail, transportation costs have increased because of air freight. • Due to the unstable flight schedule, a risk of not being able to deliver goods on time.	• Local shops couldn’t work in accordance with the decision of the State Emergency Commission and the government • Decreased customer purchasing power; affect future sales and increase internal interest expenses; • Product design is outdated	• Lack of raw materials due to socio-economic changes in the country and force majeure (quarantine, border closure, etc.) • The risk of an increase in inventories due to a mismatch between purchases and sales • Risk of having no production-sales ratio	• Labor shortages due to the pandemic • Probability of company disruption
Response	• Put inventory into circulation, reduce inventory, manage it properly, improve sales and profit margins; • Maintain business spending at a reasonable level and tolerate unnecessary costs; • Support funding in critical areas; • Maintain a reasonable level of foreign currency-based debt and income and receivables; • We are working to amend and improve the relevant procedures of the reporting process in accordance with IFRSs.	• Have a warehouse run by a specialized third party; • It is necessary to organize the transportation at a low cost by comparing the prices of the transport companies and to manage the warehouse resources properly. For example: maintaining a good supply of basic design and colored products which has good sales; • Responses were taken, such as notifying customers in advance of possible delays.	• Introduce online sales channels to more people; • Replenish sales through online channels if local stores do not work; • Improving marketing optimization.	• Correctly identify required inventory and raw material resources and build adequate reserves by anticipating purchases; • Regularly determine the age of inventory and raw material residues, take measures to reduce them or approve/ implement inventory management procedures in accordance with the determination; • Flexible planning of the factory in line with the current situation and etc.	• Transfer staff to remote operation in the event of a pandemic; • Follow the infection control regime in the workplace; • Provide vitamin-fortified food supplements at lunchtime to support the immunity of all employees; • In response to the Covid 19 vaccination campaign, 95% of all employees received first dose, 94% second dose and 48% third dose, continued to prevent ongoing risks.

QUALITY MANAGEMENT

Gobi JSC conducts quality inspections on 230 indicators at all stages from receiving raw materials from herders to finished products, strictly adheres to technological procedures and produces, certifies and delivers its products to domestic, foreign and online users in accordance with the international standards of ISO 9001:2008/MNS ISO 9001: 2010, ISO/IEC 17025: 2005/MNS ISO/IEC 17025:2007.

We implement quality management system at every stage of production to meet the needs of customers, follow 102 MNS quality standards, 3 company policies, 115 regulations, standards, technological procedures and work instructions, conduct 100% quality control and continuously improve the quality management system.

In 2021, the yarn produced by Gobi JSC met the requirements of "STANDARD 100 by OEKO-TEX" standard of OEKO-TEX organization based in Zurich, Switzerland and received the internationally recognized quality certificate for the second year.

This certificate proves to customers that the yarn produced by Gobi JSC does not contain any toxic chemicals, is friendly to human health and is reliable.

In the 4th quarter of 2021, Gobi JSC's Primary factory was awarded the "Gold Certification" for the second time from the UK-based the Sustainable Fiber Alliance/ SFA's "Clean Fibre Processing Code of Practice" conformity assessment.

This proves to our customers that our primary factory sorts, washes and combs raw materials in accordance with the principles of human resource management, occupational safety and environmental sustainability.

The report on the quality, well-being and breeding strategy of Mongolian goat was developed in 2021 by the subscription of the Ministry of Food, Agriculture and Light Industry, the Mongolian Wool and Cashmere Association and the Mongolian Pastureland Association. The Quality Standards and Certification Division of Gobi JSC worked on the report. The study was funded by the Green Gold Animal Health Project of the Swiss Agency for Development and Cooperation and the European Union's Sustainable Textile Production and Eco-Labelling in Mongolia Project and is unique in that it compared the changes in the quality characteristics (diameter, uniformity, folds, length) of goat cashmere bred in different natural and climatic regions of Mongolia with the results of the previous survey and made recommendations.

Gobi JSC's goat cashmere yarn with "H-1, 02, 03, 57" code is unique in that it is not chemically dyed or bleached. Knitted, woven and sewn products made of these yarns fully meet the requirements of production management, quality indicators and organic products of agricultural origin and we have renewed our "Organic Product" certificate.

COMPLIANCE

- We prefer to compete in the domestic and overseas markets in a business ethic that meets legal and other requirements. As part of this, the company was restructured in 2021 and a new Compliance unit was established. In doing so, we reduce risk, prevent it and work together to create positive change with the value of everyone's participation and cooperation in management activities.
- In January 2022, a training on "General concept of compliance" was organized for all members of the Executive Management Team and aiming to implement the Compliance Management System to the next level. Within this framework, we aim to develop and implement a compliance program in 2022 that will update business ethics, employee ethics and whistle-blowing policies.

CORRUPTION AND ETHICS

Gobi JSC defined its "Code of Ethics" in 2018 and approved it by the Board of Directors and calls on every employee to be free from corruption and conflicts of interest at all levels of its operations. In January 2022, in cooperation with the Mongolian Anti-Corruption Agency, training on "Free from Corruption and Interests" was organized for members of the Executive Management Team.

INTEGRATED MANAGEMENT SYSTEM ISO STANDARD

Gobi JSC has introduced the following 3 standards of the Integrated Management System in 2019 in order to green its business development direction and become an internationally recognized company based on the concept of sustainable development:

1. International Quality Management System ISO 9001: 2015
2. Environmental Management System ISO 14001: 2015
3. Occupational Health and Safety Management System ISO 45001: 2018

The Occupational Health and Safety Management System Standard and the Environmental Management System Standard have been fully implemented and are being prepared for Phase 1 and 2 audits in March and May 2022. In 2022, we will carry out process upgrades and improvements in the organization's operations and aim to implement the ISO 9001: 2015 Quality Management System Standard.

INTERNAL AUDIT OF THE MANAGEMENT SYSTEM

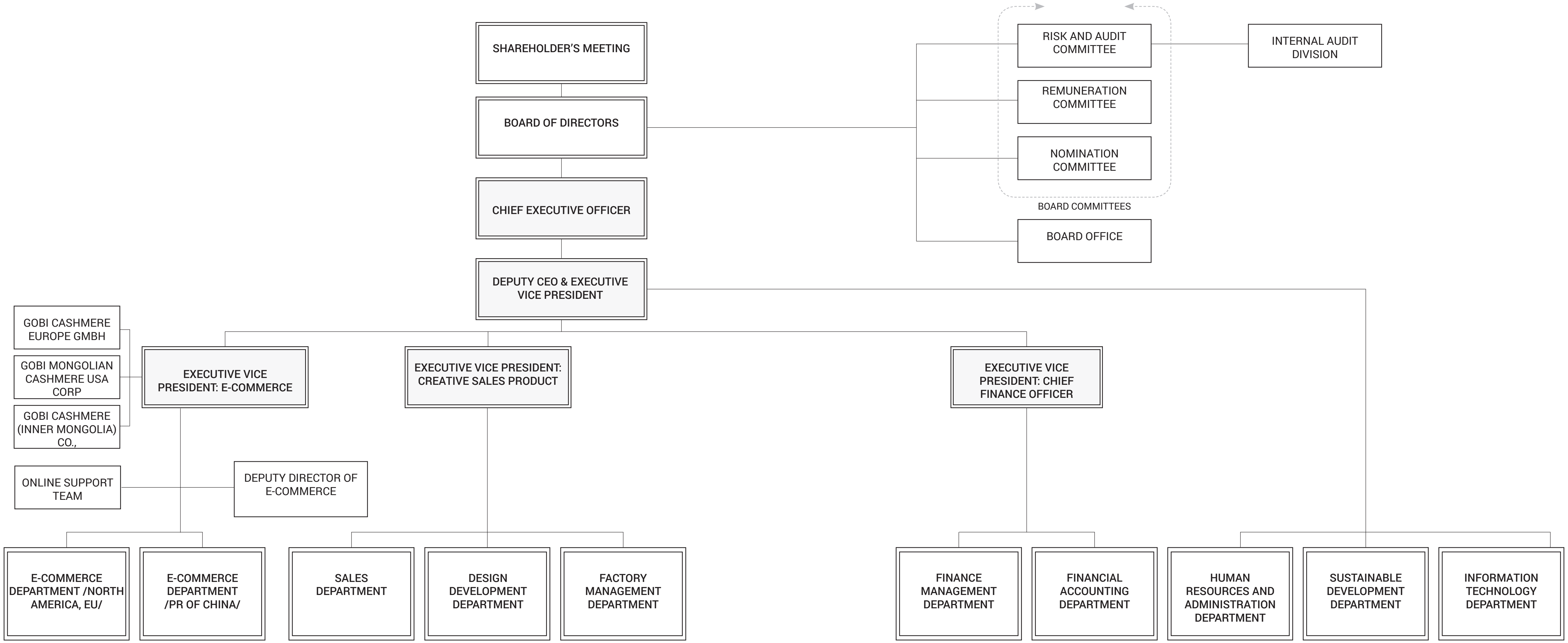
An internal audit of the management system was conducted from 19 to 23 July 2021 to assess compliance with the standards such as Environmental Management System ISO14001: 2015, Occupational Safety and Health Management System ISO45001: 2018 to identify opportunities to improve performance and to improve the implementation and performance of the integrated management system.

MANAGEMENT ANALYSIS MEETING

The management analysis meeting was held on October 19, 2021 where the PDCA cycle was done with plans for further work. SGS, an international organization based in Geneva, Switzerland, has been selected as the certification body for the integrated management system.

Gobi JSC | ANNUAL REPORT 2021

COMPANY STRUCTURE



MAIN CHANGES TO THE COMPANY STRUCTURE AND ORGANIZATION

Top management:

- Under the leadership of the Deputy CEO & Executive Vice President new positions have been created for Executive Vice President (VP): E-Commerce, Executive Vice President (VP): Creative Sales Product, Executive Vice President (VP): Finance Officer

Under the direction of the Executive Vice President (VP): E-Commerce:

- A new Deputy Director of E-Commerce has been created.
- The European market and the American market were merged into a single structure under the E-Commerce Department (North America and Europe).

Under the direction of the Executive Vice President (VP): Creative Sales Product:

- The Sales Department became responsible for domestic and overseas wholesale sales.

Under the direction of the Executive Vice President (VP): Finance Officer:

- The Strategic Planning Department was renamed as the Finance Management Department and became responsible for management, financial planning and asset management.
- The Department of Finance was renamed as the Financial Accounting Department and became responsible for financial accounting, financial and tax reporting.

Under the direct direction of the Deputy CEO & Executive Vice President:

- A new Sustainable Development Department has been established to integrate sustainable development, management systems, compliance and risk management throughout the company.

SUBSIDIARY, BRANCH

№	Subsidiary name	Location	Operation field
1	Gobi Cashmere Europe GmbH	Shonefeld, Germany	Commerce
2	Gobi Cashmere Inner Mongolia Co.,LTD	Erlian, PR of China	Commerce
3	Gobi Mongolian Cashmere USA Corp	Los Angeles, USA	Commerce
4	Goyo Cashmere LLC	Ulaanbaatar, Mongolia	Production, Commerce

№	Branch company	Location	Operation field
1	Gobi Australia	Sydney, Australia	Commerce

TOP MANAGEMENT AND KEY PERSONNEL

BAATARSAIKHAN TSAGAACH

Chief Executive Officer

Employment year at Gobi JSC: 15

SOLONGO CHULUUNBAT

Deputy CEO & Executive Vice President

Employment year at Gobi JSC: 8

MISHEEL OTGONTUGS

Executive Vice President (VP): E-Commerce

Employment year at Gobi JSC: 5

AMARSAIKHAN BAATARSAIKHAN

CEO, Gobi Cashmere Europe LLC, Deputy Director of E-Commerce

Employment year at Gobi JSC: 2

SELENGE GANBOLD

Executive Vice President (VP): Finance Officer

Employment year at Gobi JSC: 8

BOLORMAA BATSUURI

Executive Vice President (VP): Creative Sales Product

Employment year at Gobi JSC: 15

BOLORMAA BYAMBASUREN

Chief Human Resources Officer

Employment year at Gobi JSC: 4 months

TOD-OD ENKHBAYAR

Chief Financial Planning Officer

Employment year at Gobi JSC: 1

ARIUNAA BATCHULUUN

Chief Sales Officer

Employment year at Gobi JSC: 8

ZOLZAYA ERDENETSETSEG

Chief Factory & Manufacturing Officer

Employment year at Gobi JSC: 3

SODGEREL DUIKHERJAV

Director of Finance Accounting

Employment year at Gobi JSC: 11

UCHRAL AMAR

Director of Design and Development

Employment year at Gobi JSC: 7

UNENBAT CHULUUNBAT

Chief E-Commerce Officer: North America & EU

Employment year at Gobi JSC: 1

UUGANDARI TSOGT

Chief E-Commerce Officer: Asia

Employment year at Gobi JSC: 3

URTNASAN ERDENEBILEG

Director of IT

Employment year at Gobi JSC: 1

TSERENTOGTOKH ALTANGEREL

Chief Sustainability Officer

Employment year at Gobi JSC: 4

TSASCHIKHER TSOGTBAYAR

Chief Legal Officer

Employment year at Gobi JSC: 8

SELENGE MUNKHBAT

Board Secretary

Employment year at Gobi JSC: 5

KEY PERSONNEL'S OWNERSHIP OF GOBI JSC SHARES

NAME	OWNERSHIP OF GOBI JSC SHARES	
	ALONE	RELATED PARTY
D.KHULAN	12,503,652 pieces (1.6%)	TAVAN BOGD TRADE LLC 50.25%
TS.BAATARSAIKHAN	50,000 pieces (0.01%)	
CH.SOLONGO	1,000 pieces (0.0001%)	-
O.MISHEEL	1,000 pieces (0.0001%)	-
B.AMARSAIKHAN	1,000 pieces (0.0001%)	-
G.SELENGE	1,000 pieces (0.0001%)	-
B.BOLORMAA	1,000 pieces (0.0001%)	-
B.ARIUNAA	1,000 pieces (0.0001%)	-
E.TOD-OD	1,000 pieces (0.0001%)	-
E.URTNASAN	1,000 pieces (0.0001%)	-
E.ZOLZAYA	1,000 pieces (0.0001%)	-
CH.UNENBAT	1,000 pieces (0.0001%)	-
TS.TSASCHIKHER	1,000 pieces (0.0001%)	-
A.TSERENTOGTOKH	800 pieces (0.0001%)	-
D.SODGEREL	800 pieces (0.0001%)	-
A.UCHRAL	800 pieces (0.0001%)	-
TOTAL	51.86%	

STOCK MARKET, COMPANY SHARE

As of the end of 2021, the market capitalization of Gobi JSC was 254,035,834,500 MNT. Annual trading data is shown in graphic below.

52 WEEK SHARE TRADING PRICE

INDICATOR	2021	2020	2019	Growth, decline	
				2021/2020	2020/2019
NUMBER OF SHARES ISSUED /pieces/	780,112,500	780,112,500	780,112,500	Common stock	
SHARE PRICE /MNT/					
Closing price	325.64	192.50	270.00	69.2%	-28.7%
Highest price	393.62	291.86	354.11	34.9%	-17.6%
Lowest price	193.01	164.85	251.98	17.1%	-34.6%
Average price	270.67	205.85	291.60	31.5%	-29.4%
TRADING VOLUME /pieces/					
Highest /daily/	4,338,588	272,232	261,527	1493.7%	4.1%
Lowest /daily/	2,768	83	1,068	3234.9%	-92.2%
Average /daily/	81,860	15,430	31,147	430.5%	-50.5%
Total	20,464,962	3,811,314	7,848,937	437.0%	-51.4%
TRADING PRICE /MNT/					
Highest /daily/	1,106,339,940	54,440,510	87,630,809	1932.2%	-37.9%
Lowest /daily/	539,822	16,009	284,711	3272.0%	-94.4%
Average /daily/	22,492,411	3,158,074	9,398,943	612.2%	-66.4%
Total	5,623,102,771	780,044,366	2,368,533,635	620.9%	-67.1%
MARKET CAPITALIZATION /MNT/	254,035,834,500	150,171,656,250	210,630,375,000	69.2%	-28.7%

DIVIDEND

Our company has been able to solidify its domestic market position and successfully focused on increasing our exports and overseas sales. Increasing our overseas sales starts with improving our product quality, expand our operations and become more productive to increase our shareholders' investment return and continuous dividend distribution.

Chapter 2 of the "Dividend Regulation" approved by the Board of Directors in 2018 defines the dividend policy as follows.

Two. DIVIDEND POLICY

2.1. The Company's dividend policy is consistent with the Company's operations and strategic policies.

2.2. The company will pursue a policy to properly manage the investments of its shareholders and keep the amount of dividends at an appropriate level.

2.3. A company shall pay dividends if the conditions for dividend distribution specified in Article 47 of the Company Law and Article 8.12 of the Company's Charter are met.

2.4. The amount of dividends to be paid 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 plan and investment needs.

2.5. The policy is not to reduce the amount of dividends if the net profit for the current financial year has not decreased from the previous year.

2.6. Dividends will be paid in cash.

2.7. Social, cultural and industrial development funds may be established from the profits remaining after the distribution of dividends. The Board of Directors shall decide on the establishment of the fund.

DIVIDEND

Year	Number of the shares (pieces)	Dividend per share (MNT)	Total dividends distributed (MNT)	Dividend distribution
1996	7,801,125	61.00	475,868,625	Gobi JSC was privatized in 2007. Dividends announced prior to privatization is being distributed at the company 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	Dividends distributed 100% through a combination of distributing at the company office and transferring to shareholders' securities savings accounts through the MCSD.
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	-	-	According to the financial result, no dividends were distributed.
2020	780,112,500	-	-	
2021	780,112,500	-	-	

NO DISTRIBUTION OF DIVIDENDS BY THE FINANCIAL RESULTS OF 2021

According to the Resolution No. №3 of the Board of Directors of Gobi JSC dated February 14, 2022, the company's financial results for 2021 did not meet the conditions of dividend payment specified in 2.3 of the company's dividend policy or did not meet the financial adequacy ratio. Therefore it is decided not to distribute dividends.

OUR BUSINESS PARTNERS

BANK, FINANCE

GOVERNMENT ORGANIZATIONS

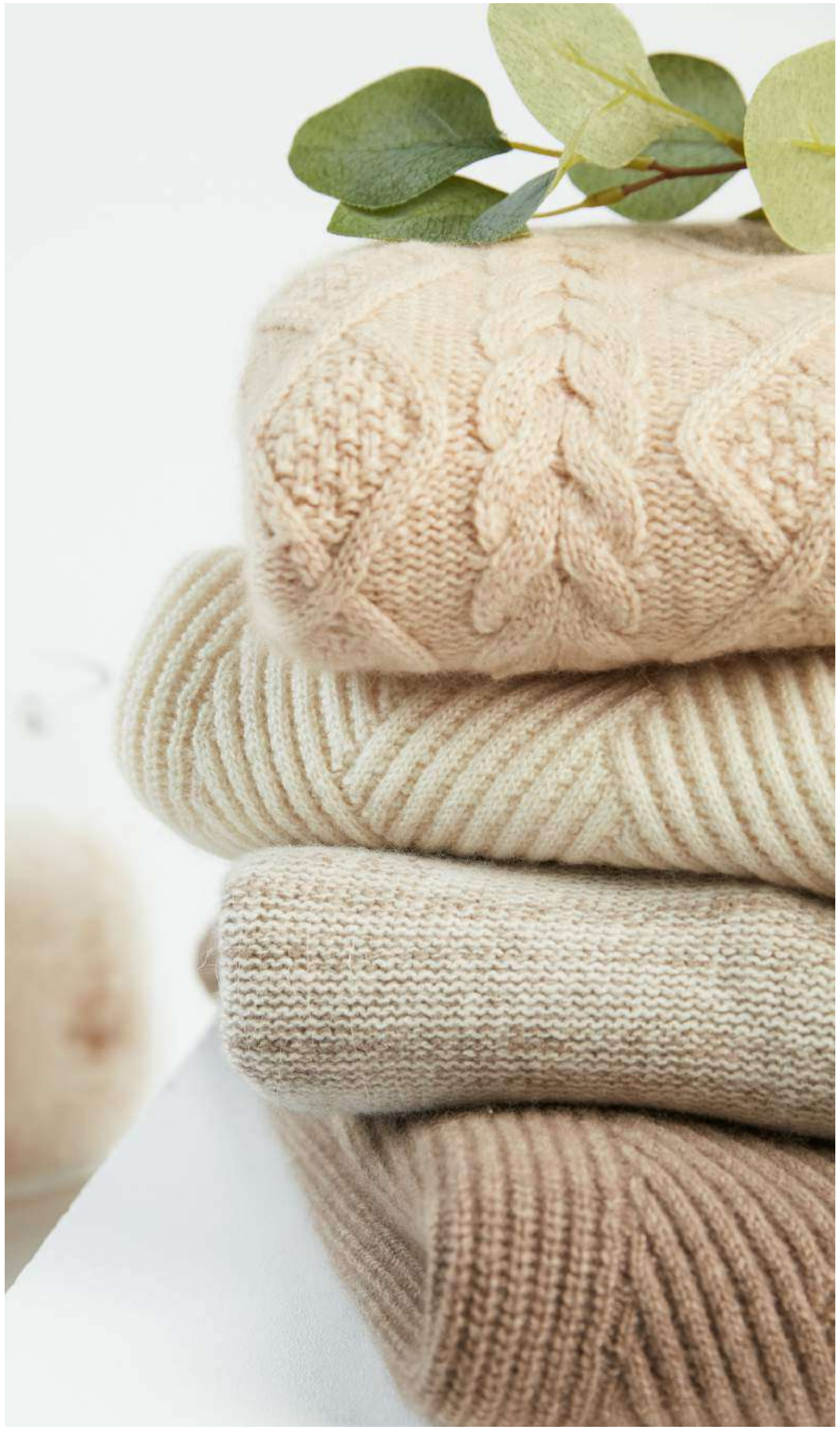
ONLINE SALES

GOODS /EQUIPMENT/

GOODS /OTHER/

TRANSPORTATION LOGITSICS

RESEARCH, COOPERATION



GOBI JSC AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENT

INDEPENDENT AUDITOR

The Risk Audit Committee of Gobi JSC has established the criteria for independence, qualifications, work experience and other for independent auditors; evaluates compliance with the criteria; develops and delivers proposals on the rights, duties and responsibilities of the independent auditors, the amount of remuneration to be paid to the auditor and other contract terms to the Board of Directors for approval. In addition to overseeing the independent audit process, it also monitors the implementation of management recommendations.

KPMG Audit LLC conducted an external audit on Gobi JSC's financial statements as of December 31, 2021. KPMG Audit LLC is one of the four largest international auditing companies and was registered with the Financial Regulatory Commission in 2013 as a Securities Market Audit Company.

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GOBI JSC AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENT, INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2021

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENT

2021.12.31

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CONSOLIDATED FINANCIAL STATEMENTS:

Gobi JSC | ANNUAL REPORT 2021

Management's Responsibility Statement

The Group'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 International Financial Reporting 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 of 31 December 2021 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 notes 2, 3 and 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 judgment and estimates, and all applicable accounting standards have been followed.

The consolidated financial statements of the Group for the year ended 31 December 2021 were authorized for issuance by the Group's management.

Ts. Baatarsaikhan
Chief Executive Officer

G. Selenge
Chief Financial Officer

"ГОВЬ" ХУВЬЦААТ КОМПАНИ

Ulaanbaatar,
Mongolia

Date: 28 March 2022

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

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www.kpmg.com/mn

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Gobi JSC and its subsidiaries (together "the Group"), which comprise the consolidated statements of financial position as at 31 December 2021, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits 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 Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mongolia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters where 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.

Allowance for Obsolete and Slow Items

Refer to the significant accounting policies in Note 2, the key sources of estimation uncertainty in Note 3, and inventories included in Note 8 to the consolidated financial statements.

Description of Key Audit Matter	How Our Audit Addressed the Matter
We consider the inventories account's allowance for obsolete and slow moving items as a key audit matter as the Group purchased significant amount of raw materials in the previous year leading to a lower inventory turnover ratio. As tourist income made up a significant portion of the Group's income, the lack of tourism has led to a decline in revenues in comparison to prior years. This has resulted high volume of inventory build up from prior year purchases.	Our audit procedures included, among others: Performed data completeness and accuracy testing for aging and cost of the inventories at the year end. Recalculation of the inventories account's allowance with the inventories aging report. Performed a test to check the inventories balance are measured at the lower of the purchase and production cost, calculated by means of the weighted average cost method, and net realisable value. We investigated the slow-moving and obsolete items during our audit and inventory count observations. Obtained confirmation on newly purchased inventories during the year.

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. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 21 April 2021.

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

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 Cho Sang Yong.

KPMG Audit LLC

KPMG AUDIT LLC

KPMG Audit LLC
Ulaanbaatar, Mongolia
29 March 2022

Signed by:	Approved by:
Soyolmaa Gungaanyambuu	Cho Sang Yong
General Director	*Partner*

This report is effective as at 29 March 2022, 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 ENDED 31 DECEMBER 2021
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

	Notes	2021	2020
ASSETS			
Current assets			
Cash and cash equivalents	5	4,389,479	12,798,745
Trade and other receivables	6	2,258,129	5,996,260
Prepayments and advances	7	3,127,757	3,000,895
Inventories	8	138,030,372	193,207,689
Corporate income tax receivables	24.2	-	265,286
Right to returned goods assets	9	-	646,063
		147,805,737	**215,914,938**
Non-current assets			
Property, plant and equipment	10	145,404,533	156,243,324
Right-of-use assets	11	1,328,307	2,631,104
Deferred tax assets	24.3	4,325,582	4,073,482
Other non-current assets	13	994,308	950,980
		152,052,730	**163,898,890**
Total Assets		**299,858,467**	**379,813,828**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	15,982,955	21,934,076
Contract liabilities	14.1	1,370,281	1,541,385
Refund liabilities	15	-	1,010,634
Lease liabilities	16	914,850	1,001,198
Corporate income tax payable	24.2	111,894	46,241
Borrowings	17	132,650,889	267,714,096
		151,030,869	**293,247,630**
Non-current liabilities			
Lease liabilities	16	672,587	1,900,851
Borrowings	17	93,407,780	4,458,498
Long-term other payables	18	25,622,107	14,955,172
		119,702,474	**21,314,521**
Total Liabilities		**270,733,343**	**314,562,151**
Equity			
Share capital	19	780,113	780,113
Revaluation reserve	22	48,870,401	48,974,836
Foreign currency translation reserve	23	561,878	(1,362,032)
(Accumulated losses) / Retained earnings		(21,087,268)	16,858,760
Total Equity		**29,125,124**	**65,251,677**
Total Liabilities and Equity		**299,858,467**	**379,813,828**

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

1

GOBI JSC AND ITS SUBSISIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
(IN THOUSAND OF MONGOLIAN TUGRUGS)

	Notes	2021	2020
Revenue	25.1	144,344,329	117,092,505
Cost of sales	25.2, 25.3	(85,543,487)	(71,536,488)
Gross profit		**58,800,842**	**45,556,017**
Finance and other income	26	963,425	2,615,647
Other gains (losses)	27	2,913,718	(8,480,653)
Finance cost	28	(25,474,286)	(29,542,260)
Selling and marketing expenses	25.3, 25.4	(60,568,067)	(44,384,939)
General and administrative expenses	25.3, 25.5	(14,636,714)	(13,076,638)
Impairment losses on financial assets	31.1	(110,920)	(170,306)
Loss before taxation		**(38,112,002)**	**(47,483,132)**
Income tax benefit (expense)	24	165,974	1,327,791
Loss for the year		**(37,946,028)**	**(46,155,341)**
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment	10, 22	(104,435)	33,327,139
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translating the net assets of foreign subsidiaries	23	1,923,910	(1,083,503)
Other comprehensive income for the year		**1,819,475**	**32,243,636**
Total comprehensive loss for the year		**(36,126,553)**	**(13,911,705)**
Losses per share-basic (in MNT)	21	**(48.64)**	**(59.16)**

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

2

GOBI JSC AND ITS SUBSISIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
(IN THOUSAND OF MONGOLIAN TUGRUGS)

	Notes	Share capital	Revaluation reserve	Foreign currency translation reserve	Retained earnings (Accumulated losses)	Total equity
Balance as at 1 January 2020		**780,113**	**15,647,697**	**(278,529)**	**63,014,101**	**79,163,382**
Net loss for the year		-	-	-	(46,155,341)	**(46,155,341)**
Other comprehensive income	22, 23	-	33,327,139	(1,083,503)	-	**32,243,636**
Declared dividend	20	-	-	-	-	-
Balance as at 31 December 2020		**780,113**	**48,974,836**	**(1,362,032)**	**16,858,760**	**65,251,677**
Net loss for the year		-	-	-	(37,946,028)	**(37,946,028)**
Other comprehensive income	22, 23	-	(104,435)	1,923,910	-	**1,819,475**
Declared dividend	20	-	-	-	-	-
Balance as at 31 December 2021		**780,113**	**48,870,401**	**561,878**	**(21,087,268)**	**29,125,124**

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

3

GOBI JSC AND ITS SUBSISIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021
(IN THOUSAND OF MONGOLIAN TUGRUGS)

	Notes	2021	2020
Cash flows from operating activities			
Loss for the year		(37,946,028)	(46,155,341)
Adjustments for:			
Depreciation and amortisation of non-current assets		11,829,178	12,819,926
Income tax benefit	24	(165,974)	(1,327,791)
Interest expense	28	25,034,081	28,829,206
Interest income	26	(30,585)	(60,405)
Unrealised foreign exchange (gain) / loss		(4,254,445)	9,661,222
Impairment loss on financial assets	31.1	79,804	161,269
Provision of inventories allowance	8	24,689	581,464
(Gain) / loss on disposal of property, plant and equipment and intangible assets	27	78,409	(10,096)
Gain on derecognition of right-of-use assets	27	(48,066)	(20,769)
		(5,398,937)	**4,478,685**
Changes in:			
Trade and other receivables		1,432,560	10,670,508
Prepayments and advances		(231,297)	1,214,502
Inventories		55,292,968	(15,536,051)
Right to returned goods assets		646,063	(80,773)
Trade and other payables		(4,888,790)	(4,262,314)
Refund liabilities		(1,010,634)	97,436
Contract liabilities		(171,104)	(611,969)
		45,670,829	**(4,029,976)**
Income taxes paid	24.2	(280,600)	(6,999)
Interest paid	17.2	(25,402,704)	(29,586,069)
Net cash flows from / (used in) operating activities		**19,987,525**	**(33,623,044)**
Cash flows from investing activities			
Interest received		30,585	60,405
Proceeds from disposals of property, plant and equipment and intangible assets		452,393	32,125
Acquisition of property, plant and equipment	10	(418,373)	(813,808)
Acquisition of intangible assets	13.1	(276,618)	(268,872)
Net cash flows from / (used in) investing activities		**(212,013)**	**(990,150)**
Cash flows from financing activities			
Proceeds from borrowings	17.2	414,253,570	315,492,535
Proceeds from issuance of bond	17.2	9,877,213	-
Repayment of borrowings	17.2	(453,299,174)	(276,929,997)
Payment of lease liabilities	17.2	(940,160)	(708,588)
Dividend paid	20	(100)	(463)
Net cash flows from / (used in) financing activities		**(30,108,651)**	**37,853,487**
Net (decrease) / increase in cash and cash equivalents		**(10,333,139)**	**3,240,293**
Exchange difference on translating foreign operations	23	1,923,910	(1,083,503)
Effect of exchange rate differences on cash and cash equivalents		(37)	211
Cash and cash equivalents, at the beginning of the year	5	**12,798,745**	**10,641,744**
Cash and cash equivalents, at the end of the year	5	**4,389,479**	**12,798,745**

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

4

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021
(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. 50.25% of the Company is owned by Tavan Bogd Trade LLC, registered in Mongolia, 34% by Hide Inter LLC, registered in Japan, and the remaining 15.75% is owned by other small shareholders. As of 31 December, 2021, Gobi JSC had a total of 21,616 shareholders.

The place of business of the Company and its subsidiaries (hereinafter referred to as the "Group") is the Gobi JSC Building, which is located at Industrial Street, 3rd khoroo, Khan-Uul District, 17062, Ulaanbaatar, Mongolia, and the Group carries out its operations in Mongolia, People's Republic of China, United States of America, Federal Republic of Germany and will be starting operations in Australia.

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.

During the reporting period, the Group's primary operations consisted of production and sales 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 consolidated financial statements for the year ended 31 December 2021 has been prepared by consolidating the financial statements of the Company and its subsidiaries. The subsidiaries of the Company are disclosed in detail in Note 12.

The executive management of the Group authorised the issuance of the consolidated financial statements on 29 March 2022.

2. Summary of significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRSs) 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

The social and economic impact of the global epidemic was continuing in 2021. In particular, two years have passed since classifying Mongolia as a red zone. Tourists stopped coming to Mongolia due to international border closures and repeated embargoes, which have further complicated the economy. However, Gobi JSC has invested in online marketing to expand its new sales channels to major global markets such as Europe, United States, and China. The results of these investments are evident in the improvement of key marketing indicators such as website access, number of customers, and customer engagement costs. The sales of 3 subsidiaries of Gobi JSC operating in the above 3 markets reached MNT 40.9 billion, an increase of 29% from the previous year, and domestic sales reached MNT 66.7 billion, an increase of 35% from the previous year, respectively. In addition, in 2021, the following funding sources were newly available.

Tavan Bogd LLC during the year opened a USD 10 million 24-month credit line for working capital financing at an interest rate of 6.7% per annum to support the Group's operations in addition to the credit line opened with XacBank for MNT 25 billion with an interest rate of 13.2%. The Group also raised MNT 10 billion through the issuance of a 12-month bond with an annual interest rate of 9% to support working capital needs.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.2 Basis of preparation (continued)

2.2.1 Going concern (continued)

In July 2021, the Group changed the terms of both loans obtained from DBM of MNT 42.9 billion and MNT 40 billion to 12% per annum extended to June 2023, and 11.5% extended to May 2022 respectively. The loans were obtained to finance the acquisition of raw materials necessary collateral was placed by relevant laws and regulations.

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 Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Although the investee does not have a majority of the voting rights to influence, the investee is considered to influence if the voting rights held by the Company have a real ability to influence the related activities of the investee. The following factors are used to assess whether a 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
- Other factors that Company's voting rights may affect current related activities voting rights

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expense of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3.1. Changes in the Group's shareholding interests in existing subsidiaries

Changes in the Group's shareholding 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.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

2. Summary of significant accounting policies (continued)

2.3 Basis of consolidation (continued)

2.3.1. Changes in the Group's shareholding interests in existing subsidiaries (continued)

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 IFRSs). 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.

2.6 Property, plant and equipment

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

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

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

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

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2. Summary of significant accounting policies (continued)

2.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Property, plant and equipment useful life:

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

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

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

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2. Summary of significant accounting policies (continued)

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 disposal 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 asset 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 asset 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 amortisation if no impairment loss had been recognised.

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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 except for the trade receivable arising from contracts with customers which are initially measured in accordance with IFRS 9. 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.

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

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

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

2.10.2 Impairment of financial assets

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

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

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

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

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

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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.
- 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 1 year 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.

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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)

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

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

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

2.10.3 Derecognition of financial assets

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

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

2.11 Financial liabilities and equity

2.11.1 Classification as debt or equity

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

2.11.2 Equity instruments

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

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 measured 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.

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2. Summary of significant accounting policies (continued)

2.11 Financial liabilities and equity (continued)

2.11.3 Financial liabilities (continued)

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.

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;
c) Other revenue

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2. Summary of significant accounting policies (continued)

2.12 Revenue recognition (continued)

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 and the wholesale customers up to certain limits stated in the contracts. Therefore, a contract liability (refund liability) and a right to the returned good assets (included in current assets) are recognised for the products expected to be returned.

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

2.12.2 Service income

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

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

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

2.12.3 Other revenue

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

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

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2. Summary of significant accounting policies (continued)

2.12 Revenue recognition (continued)

2.12.4 Assets and liabilities arising from the right of return

Right to returned goods asset

Right to return goods 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.

2.13.2 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.

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2. Summary of significant accounting policies (continued)

2.13 Leases (continued)

2.13.2 The Group as a lessee (continued)

Right-of-use assets (continued)

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.

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.

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2. Summary of significant accounting policies (continued)

2.13 Leases (continued)

2.13.2 The Group as a lessee (continued)

Lease liabilities (continued)

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 the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

2.13.3 The Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfers 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.

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2. Summary of significant accounting policies (continued)

2.14 Foreign currencies (continued)

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 asset 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 a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation 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 recognises other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

2.17 Employee benefits

The Group recognises liabilities less wages and salaries paid to employees during the period. Liability is also recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and if the obligation can be reliably estimated.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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 a reliable estimate can be made of the 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.

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2. Summary of significant accounting policies (continued)

2.18 Provisions (continued)

Where some or all of the expenditures 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 each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision shall be used only for expenditures for which the provision was originally recognised.

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 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 Group or the Group's parent.

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

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

2.21 Taxation

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

2.21.1 Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

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2. Summary of significant accounting policies (continued)

2.21 Taxation (continued)

2.21.2 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.

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

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

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

The preparation of consolidated financial statements in accordance with IFRS 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.

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3. Critical accounting judgements and key sources of estimation uncertainty

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

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

3.1 Critical accounting judgements

3.1.1 Useful life of land and depreciation

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

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

The Group paid an upfront fee when the Group first signed the land agreement. Historically, the Group successfully renewed the lease upon expiry at minimal cost, if any. The executive management of the Group finds that the Group can continue to renew the land at minimal cost, if any, and can continue to take possession of the land indefinitely. Thus, the land with a carrying amount of MNT 17,959,888 thousand (MNT 17,959,888 thousand at 31 December 2020) 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 of 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 of 31 December 2021, the revenue amount of MNT 144,344,329 thousand was net of returns and discounts of MNT 1,113,597 thousand (31 December 2020 the revenue amount of MNT 117,092,505 thousand was net of returns and discounts of MNT 4,525,919 thousand).

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

3.2 Key sources of estimation uncertainty

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

3.2.1 Calculation of loss allowance

The Group uses a provision matrix to calculate ECL for the trade receivables except for the amount which is assessed individually. The provision rates are based on internal credit ratings with groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historically observed default rates are reassessed and changes in the forward-looking information are considered.

As at 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 (31 December 2020 the carrying amount of trade and other receivables is MNT 5,996,260 thousand, net of loss allowance of MNT 1,891,013 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.

3.2.2 Inventory provision for obsolete and slow moving items (continued)

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

As at 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 (31 December 2020: the carrying amount of inventories is MNT 193,207,689 thousand excluding right to returned goods assets of MNT 646,063 thousand net of provision for inventories of MNT 1,766,807 thousand).

3.2.3 Useful lives of property, plant and equipment

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

Management believes that the current useful lives reflect the economic lives of property, plant and equipment.

3.2.4 Fair value measurement of land and buildings

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

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

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4. Application of new and amendments to international financial reporting standards (IFRSs)

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 2021.

Effective for annual periods beginning on or after	New Standards or Amendments
1 January 2021	• Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 16 and IFRS 7 Interest Rate Benchmark Reform – Phase 2
1 April 2021	• Extension of amendment to IFRS 16 Covid-19-Related Rent Concessions

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.

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 2022	• Amendments to IFRS 3 Reference to the Conceptual Framework • Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use • Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract • Amendments to IFRS Standards Annual Improvements to IFRS Standards 2018-2020
1 January 2023	• IFRS 17 Insurance Contracts • Amendments to IAS 1 Classification of Liabilities as Current or Non-current (proposed defer effective date to 1 January 2024) • Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies • Amendments to IAS 12 - Deferred Tax Related to Assets and Liabilities arising from a Single Transaction • Amendments to IAS 8 - Definition of Accounting Estimates

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5. Cash and cash equivalents

	2021	2020
Cash on hand	12,258	11,863
Cash at bank	4,377,221	12,786,882
	4,389,479	**12,798,745**

6. Trade and other receivables

	2021	2020
Trade receivables	2,289,402	4,223,335
Loss allowance	(1,698,935)	(1,745,641)
	590,467	**2,477,694**
Receivables from related parties (see Note 29.1)	30,222	215,053
Other receivables	1,782,024	3,448,885
Loss allowance	(144,584)	(145,372)
	2,258,129	**5,996,260**

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 measures the loss allowance that is not credit-impaired for trade receivables at an amount equal to the lifetime expected credit loss (ECL). The ECL on trade receivables are estimated using a provision matrix by reference to past defaults of the debtors, general economic conditions of the industry in line with the debtors’ operation and assesses both the current and the forward-looking economic conditions at the reporting date.

There have been no changes in the estimation techniques or significant assumptions made during the current reporting period.

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 1 year 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

	2021	2020
VAT receivables	930,707	2,915,071
Receivables from employees	468,918	172,209
Others	382,399	361,605
	1,782,024	**3,448,885**

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7. Prepayments and advances

	2021	2020
Advance payments to vendors	1,383,448	1,034,060
Prepaid expense	1,744,309	1,934,490
Prepaid tax	-	32,345
	3,127,757	**3,000,895**

8. Inventories

	2021	2020
Raw materials	29,398,700	51,360,542
Work in progress	14,277,420	11,790,539
Finished goods	84,336,801	115,808,531
Consumables	11,656,100	15,947,030
Goods in transit	152,847	67,854
	139,821,868	**194,974,496**
Allowance for obsolete and slow moving items	(1,791,496)	(1,766,807)
	138,030,372	**193,207,689**

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 83.6 billion (31 December 2020: MNT 71.1 billion).

Movement in the allowance for obsolete and slow moving items:

	2021	2020
Balance at beginning of the year	1,766,807	1,185,343
Addition to allowance for obsolete and slow moving items	494,616	798,474
Write off	(469,927)	(217,010)
Balance at the end of the year	**1,791,496**	**1,766,807**

Inventories with a carrying amount of MNT 103.4 billion (2020: MNT 162.2 billion) has been pledged as collateral for borrowings (see Note 17.1).

9. Right to returned goods assets

	2021	2020
Right to returned goods assets	-	646,063

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

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10. Property, plant and equipment

	Land	Buildings	Plant and Equipment	Furniture and fixtures	Vehicles	Construction in progress*	Leasehold improvement	Total
Cost and revaluation:								
1 January 2020	**2,613,998**	**61,265,407**	**89,061,581**	**5,994,535**	**2,592,039**	**18,247,144**	**622,574**	**180,397,278**
Additions	-	242,532	166,504	298,181	-	106,591	-	813,808
Disposals	-	-	(5,301)	(22,036)	(57,296)	-	-	(84,633)
Transfer to inventory	-	-	(14,322)	(293,487)	-	-	-	(307,809)
Revaluation	15,345,890	17,981,249	-	-	-	-	-	33,327,139
31 December 2020	**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)
Transfer to inventory	-	-	(194,925)	(41,066)	-	(12,531)	-	(248,522)
Transfer from CIP to 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**
Accumulated depreciation and impairment:								
1 January 2020	**-**	**4,511,463**	**38,914,720**	**2,042,519**	**885,561**	**-**	**-**	**46,354,263**
Depreciation charge for the year	-	2,161,624	7,914,808	1,134,764	285,683	-	304,571	11,801,450
Disposals	-	-	-	(14,569)	(48,035)	-	-	(62,604)
Transfer to inventory	-	-	(2,047)	(188,603)	-	-	-	(190,650)
31 December 2020	**-**	**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)
Transfer to inventory	-	-	(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**
Carrying amount:								
31 December 2020	**17,959,888**	**72,816,101**	**42,380,981**	**3,003,082**	**1,411,534**	**18,353,735**	**318,003**	**156,243,324**
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**

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

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10. Property, plant and equipment (continued)

10.1 Assets pledged as security

As of December 2021, property, plant and equipment with a total carrying amount of MNT 141.3 billion (31 December 2020: total carrying amount of MNT 151.4 billion) has been pledged as collateral for borrowings (see Note 17.1).

10.2 Fair value measurement of the Group's land and buildings

The Group's land 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 and buildings was performed by an independent appraiser not related to the Group as at 30 September 2020. The fair value of the land was determined based on the comparable market approach that reflects recent transaction prices for similar properties. The Group reassessed the fair value of these assets as at 31 December 2021 and did not identify material adjustment from the carrying value as at 31 December 2021, therefore in accordance with IAS 16, the value was not adjusted.

Details of the Group's land and buildings and information about the fair value hierarchy as at the end of the reporting period were as follows:

	31 December 2021		**31 December 2020**	
	Fair value	**Level 3**	**Fair value**	**Level 3**
Land	17,959,888	17,959,888	17,959,888	17,959,888
Buildings	70,477,551	70,477,551	72,816,101	72,816,101
	88,437,439	**88,437,439**	**90,775,989**	**90,775,989**

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

	2021	**2020**
Land	2,613,998	2,613,998
Buildings	52,407,694	54,518,024
	55,021,692	**57,132,022**

10.3 Fully depreciated property, plant and equipment

	2021	**2020**
Cost	28,492,345	22,413,670

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

	2021	**2020**
Depreciation of property, plant and equipment	3,925,102	3,363,547
Depreciation of right-of-use assets	976,411	818,943
Amortisation of intangible assets	156,827	194,873
	5,058,340	**4,377,363**

During the year, Group recognised depreciation expenses amounting to MNT 6,770,838 thousand (31 December 2020: 8,437,903 thousand) in the cost of inventories.

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11. Right-of-use assets

	Total
Cost:	
At 1 January 2020	3,134,762
Additions	1,270,355
Disposals	(371,220)
At 31 December 2020	**4,033,897**
Additions	143,572
Disposals	(748,555)
At 31 December 2021	**3,428,914**
Accumulated depreciation:	
At 1 January 2020	763,723
Charge for the year	818,943
Disposals	(179,873)
At 31 December 2020	**1,402,793**
Charge for the year	976,411
Disposals	(278,597)
At 31 December 2021	**2,100,607**

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11. Right-of-use assets (continued)

11.1 Leases as lessee (continued)

ii. Amounts recognised in profit or loss

	2021	2020
Depreciation expense on right-of-use assets	976,411	818,943
Interest expense on lease liabilities	363,392	408,201
Expenses relating to short-term lease	564,802	953,931
Expenses relating to lease of low value assets	-	4,462

iii. Amounts recognised in statement of cash flows

	2021	2020
Total cash outflow for leases	1,303,552	1,116,789

11.2 Leases as lessor

As of 31 December 2021 and 2020, 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 2021 was MNT 256,561 thousand (2020: MNT 279,259 thousand).

Future undiscounted minimum lease receivables under non-cancellable operating leases as of 31 December 2021 are as follows:

	2021	2020
Less than one year	247,240	231,362
One to two years	-	247,240
Two to three years	-	-
Three to four years	-	-
Four to five years	-	-
More than five years	-	-
	247,240	**478,602**

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12. Investment in subsidiaries

Name of subsidiaries	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			2021	2020
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%

13. Other non-current assets

	2021	2020
Intangible assets	437,024	427,151
Deposit placed for leased stores	557,284	523,829
	994,308	**950,980**

13.1 Intangible assets

	2021	2020
Cost:		
At January 1	1,225,490	956,618
Additions	276,618	268,872
Disposals	(120,752)	-
At 31 December	**1,381,356**	**1,225,490**
Accumulated amortisation:		
At January 1	798,339	598,806
Disposals	(10,834)	-
Amortisation for the year	156,827	199,533
At 31 December	**944,332**	**798,339**
Carrying amount:		
At 31 December	**437,024**	**427,151**

Intangible assets comprise of accounting software with a net carrying amount of MNT 222,378 thousand (2020: MNT 304,596 thousand) and trademarks with a net carrying amount of MNT 214,646 thousand (2020: MNT 122,555 thousand).

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14. Trade and other payables

	2021	2020
Trade payables	870,177	801,658
Related party payables (Note 29.1)	185,933	12,477,541
Salary payables	1,292,523	1,094,566
Other taxes payables (excluding corporate income tax payables)	2,065,186	2,058,370
Dividend payables (Note 20)	166,933	167,033
Bond payables	9,877,213	-
Other payables	1,524,990	5,334,908
	15,982,955	**21,934,076**

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 of MNT 10 billion with a maturity of 12 months and an annual interest rate of 9%. The bond interest is repayable on a semi-annual basis with the principal due on maturity.

14.1 Contract liabilities

	2021	2020
Amounts received in advance-shown under current liabilities	1,370,281	1,541,385

Contract liabilities as at 31 December 2021 are expected to be recognised as revenue by 31 December 2022.

15. Refund liabilities

	2021	2020
Arising from rights of return	-	1,010,634

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.

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16. Lease liabilities

The following table sets out the maturity analysis of lease liabilities, showing the undiscounted lease payments after the reporting date.

	2021	2020
Maturity analysis:		
Within one year	1,092,584	1,386,421
More than one year but not more than two years	702,823	1,298,595
More than two years but not more than five years	6,080	859,132
More than 5 years	-	-
	1,801,487	**3,544,148**
Less: unearned interest	(214,050)	(642,099)
	1,587,437	**2,902,049**

	2021	2020
Analysed as:		
Current	914,850	1,001,198
Non-current	672,587	1,900,851
	1,587,437	**2,902,049**

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

17. Borrowings

	2021	2020
Short-term:		
Short-term borrowings	130,751,028	265,445,613
Accrued interest payables	1,899,861	2,268,483
Total short-term borrowings	**132,650,889**	**267,714,096**
Long-term:		
Long-term borrowings	93,407,780	4,458,498
Total long-term borrowings	**93,407,780**	**4,458,498**
Total	**226,058,669**	**272,172,594**

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17. Borrowings (continued)

Terms and conditions of outstanding loans were as follows:

				31 December 2021		31 December 2020	
Party	**Currency**	**2021 Nominal interest rate (2020)**	**Loan maturity**	**Foreign currency (thousands)**	**Carrying amount**	**Foreign currency (thousands)**	**Carrying amount**
Golomt Bank (Credit line) (i)*(a)	MNT	13.5% (15.6%)	2023	-	-	-	26,000,000
Golomt Bank (Credit line) (i)	USD	7.2%	2023	3,400	9,685,920	-	-
European Bank for Reconstruction and Development (Tranche 1A) (ii)	USD	LIBOR+5.3%	2024	2,545	7,251,491	2,909	8,289,484
European Bank for Reconstruction and Development (Tranche 1B) (ii)	USD	LIBOR+6%	2024	3,818	10,877,236	4,364	12,434,225
European Bank for Reconstruction and Development (Tranche 2) (ii)	USD	LIBOR+5.3%	2024	4,364	12,431,128	4,909	13,988,504
Khan Bank (Credit line) (iii)	MNT	12.6% (14.4%)	2023	-	-	-	8,000,000
Development Bank of Mongolia (iv)	MNT	12%	2023	-	42,900,000	-	42,900,000
Development Bank of Mongolia (iv)	MNT	11.5% (3%)	2022	-	33,333,333	-	40,000,000
Xac Bank (Credit line) (v)	MNT	13.2% (14.4%)	2023	-	10,000,000	-	5,000,000
Trade and Development Bank of Mongolia (ADB) (vi)	MNT	8%	2022	-	990,000	-	3,960,000
Trade and Development Bank of Mongolia (Credit line) (vii)	USD	8.3%	2021	-	-	1,600	4,458,498
International Investment Bank (viii)	EUR	4.25%	2027	16,000	51,567,840	16,000	55,932,480
International Investment Bank (viii)	EUR	5.25%	2027	14,000	45,121,860	14,000	48,940,920
Total					**224,158,808**		**269,904,111**

* *Due to the impact of COVID, financial ratios were impaired and the Group breached financial ratio covenants of the borrowing agreements during the period, which those breaches permitted the lender to demand accelerated repayment.*

(a) *The breach of covenants for the borrowings was remedied by a waiver letter from the lender, before the 2021 financial statements are authorised for issue.*

(b) *The breach of covenants for the borrowings was remedied, the terms of the loans payable were not renegotiated, before the 2021 financial statements are authorised for issue. However, the lender has expressed in writing that they will not recall the borrowings.*

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17. Borrowings (continued)

17.1 Summary of borrowing arrangements

(i) Borrowings from Golomt Bank as of 31 December 2021 and 2020 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.
- Following the acquisition of Goyo LLC the Group made an amendment with Golomt Bank on 22 July 2019 removing the company from the USD credit line agreement signed on 19 March 2018 and transferring the outstanding amount of USD 21.9 million from Goyo LLC to the Group.
- The Group made an amendment with Golomt Bank on 19 March 2020, extending the maturity of the MNT credit line agreement by 12 months.
- On 13 August 2020, the credit line interest rates were amended to 3 hierarchy rates depending on the amount drawn by the Group. The loan interest rate is 16.8% for up to MNT 20 billion, 15.6% for MNT 20 billion to 40 billion, and 14.4% for amounts above MNT 40 billion per annum.
- 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 hierarchy removed) and 7.2%, respectively. The Group pledged its plant and equipment, inventories, and future cash revenue.

(ii) Borrowings from EBRD as of 31 December 2021 and 2020 are as follows:

- In 2017 and 2018, the Group obtained working capital loans from EBRD maturing on 10 January 2024 and 10 July 2024 respectively. The Group obtained a total of USD 16 million with interest rates of LIBOR+5.3% and LIBOR+6% per annum. As of December 2021, USD 5.3 million has been repaid to the bank. The Group pledged its building, plant and equipment, construction in progress, and inventory.

(iii) Borrowings from Khan bank as of 31 December 2021 and 2020 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 25 May 2020, credit line agreement was amended reducing its interest rates to 14.4% and 7.2% for MNT and USD borrowings. On 1 March 2021, credit line interest rates were further reduced to 12.6% and 7% for MNT and USD borrowings respectively, with a credit limit of MNT 60 billion or the USD equivalent. In 2021, the Group utilised USD 9.6 million of the credit line and was repaid during the year.

(iv) Borrowings from Development Bank of Mongolia as of 31 December 2021 and 2020 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.
- On 22 May 2020, the Group obtained a loan for 12 months amounting to MNT 40 billion bearing an interest rate of 3% for working capital purposes. On 5 July 2021, an amendment to the loan was made, increasing the interest rate to 11.5% and extending the maturity to 22 May 2022. The Group pledged land, building, plant and equipment, furniture and fixtures, vehicles, raw materials, and future cash revenue for both loans outstanding to the bank.

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17. Borrowings (continued)

17.1 Summary of borrowing arrangements (continued)

(v) Borrowings from Xac Bank LLC as of 31 December 2021 and 2020 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. As of 31 December 2020, the Group had utilised an amount of MNT 5 billion. The Group has repaid the credit line as of 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 for MNT 25 billion with an interest rate of 13.2% per annum.

(vi) Borrowings from Asian Development Bank financed through Trade and Development Bank of Mongolia as of 31 December 2021 and 2020 are as follows:

- On 21 December 2016, the Group obtained a working capital financing loan from Trade Development Bank for 60 months amounting to MNT 6 billion with an interest rate of 8% per annum. The loan repayment schedule started on 12 January 2020 payback MNT 170 million monthly and after January 2021 will pay MNT 330 million monthly. On 16 June 2021, the loan was amended extending its maturity to 26 March 2022 with monthly payments of MNT 330 million. The Group pledged land, buildings, and inventory.

(vii) Borrowings from Trade and Development Bank of Mongolia as of 31 December 2021 and 2020 are as follows:

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17. Borrowings (continued)

17.2 Reconciliation of liabilities arising from financing activities

	Borrowing (Note 17)	Loans from related parties (Note 29)	Bond payables (Note 14)	Lease liabilities (Note 16)	Dividend payable (Note 20)	Total
At 1 January 2021	264,172,594	8,000,000	-	2,902,049	167,033	275,241,676
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)
Dividend paid	-	-	-	-	(100)	(100)
Effect of foreign exchange rate differences	(6,699,698)	-	-	-	-	(6,699,698)
Other changes	-	-	-	(374,452)	-	(374,452)
Interest expense	22,157,736	2,512,953	-	363,392	-	25,034,081
Interest paid	(22,526,359)	(2,512,953)	-	(363,392)	-	(25,402,704)
At 31 December 2021	**226,058,669**	**-**	**9,877,213**	**1,587,437**	**166,933**	**237,690,252**

	Borrowings (Note 17)	Loans from related parties (Note 29)	Bond payables (Note 14)	Lease liabilities (Note 16)	Dividend payable (Note 20)	Total
At 1 January 2020	194,097,962	27,730,000	-	2,552,398	167,496	224,547,856
Proceeds from borrowings	233,763,135	81,729,400	-	-	-	315,492,535
Proceeds from issuance of bonds	-	-	-	-	-	-
Repayment of borrowings	(175,470,597)	(101,459,400)	-	-	-	(276,929,997)
Payment of lease liabilities	-	-	-	(708,588)	-	(708,588)
Dividend paid	-	-	-	-	(463)	(463)
Effect of foreign exchange rate differences	12,538,957	-	-	-	-	12,538,957
New leases	-	-	-	1,270,355	-	1,270,355
Other changes	-	-	-	(212,116)	-	(212,116)
Interest expense	22,694,477	5,726,528	-	408,201	-	28,829,206
Interest paid	(23,451,340)	(5,726,528)	-	(408,201)	-	(29,586,069)
At 31 December 2020	**264,172,594**	**8,000,000**	**-**	**2,902,049**	**167,033**	**275,241,676**

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18. Long-term other payables

	2021	2020
TDB Leasing LLC	-	724,719
Tavan Bogd Trade LLC (Note 29.1)	25,622,107	14,230,453
	25,622,107	**14,955,172**

Long-term payables related to TDB Leasing LLC was for the purchase of industrial equipment with base interest rate of 4.7% per annum plus LIBOR. The debt will be fully repaid in 2022 and the equipment purchased is pledged with the Development Bank of Mongolia.

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 to be extended until 24 May 2024 (with previous maturity of 24 May 2022).

19. Share capital

	Number of shares		Share capital	
	2021	2020	2021	2020
Balance at beginning of the year	780,112,500	780,112,500	780,113	780,113
Balance at end of the year	**780,112,500**	**780,112,500**	**780,113**	**780,113**

The share capital as of 31 December 2021 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 2020: 780,112,500 common shares authorised and issued at par value of MNT 1.00).

20. Dividend

	2021	2020
Balance at beginning of year	167,033	167,496
Declared dividend	-	-
Dividend paid	(100)	(463)
Balance at end of year	**166,933**	**167,033**

As per Resolution No. 03 of the Board of Directors dated 14 February 2022, no dividends were declared in 2021 and 2020.

21. Losses per share

	2021	2020
Net loss for the year	(37,946,028)	(46,155,341)
Weighted average number of ordinary shares outstanding	780,112,500	780,112,500
Losses per share (*in MNT*)	**(48.64)**	**(59.16)**

Basic losses per share are calculated by dividing the Group's loss by the weighted average number of shares outstanding for the year. No diluted earnings per share is presented as there are no outstanding shares or options other than ordinary shares.

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22. Revaluation reserve

	2021	2020
Balance at beginning of year	48,974,836	15,647,697
Revaluation surplus	(104,435)	33,327,139
Balance at end of year	**48,870,401**	**48,974,836**

23. Foreign currency translation reserve

	2021	2020
Balance at beginning of year	(1,362,032)	(278,529)
Exchange differences arising on translating the net assets of foreign subsidiaries	1,923,910	(1,083,503)
Balance at end of year	**561,878**	**(1,362,032)**

24. Income tax benefit

	2021	2020
Current tax:		
Current tax expense in respect of the current year	86,126	35,348
Deferred tax:		
Deferred tax benefit recognised in the current year	(252,100)	(1,363,139)
	(165,974)	**(1,327,791)**

24.1 Current tax

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

	2021	2020
Loss before taxation	(38,112,002)	(47,483,132)
Theoretical tax credit at statutory income tax rate of 10%	(3,811,200)	(4,748,313)
Effect of expenses that are non-deductible	560,984	471,521
Effect of non-taxable income	(118,373)	(109,661)
Tax under the special tax rate	86,126	9,720
Derecognition of previously recognised (recognition of previously unrecognised) deductible temporary differences	1,120,761	(137,619)
Unrecognised deductible temporary differences	1,995,728	3,186,561
Income tax benefit	**(165,974)**	**(1,327,791)**

According to the Mongolian Corporate Income Tax Law, an annual taxable income of up to MNT 6 billion (MNT 6 billion in 2020) will be taxed at 10%, and an annual taxable income of more than MNT 6 billion will be taxed at an additional 25%.

The Mongolian Tax Administration has been implementing the revised set of laws since 2020 using the balance sheet method to calculate the temporary difference between deferred tax assets and liabilities under IAS 12 and IFRS 23.

The Group had an accrued tax loss of MNT 13,819,006 thousand (MNT 14,520,086 thousand in 2020) that could be deducted from future profit during the reporting year. This includes deferred tax assets. The tax loss incurred in 2021 can be carried forward up to 2025.

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24. Income tax benefit (continued)

24.2 Current tax (assets) and liabilities

	2021	2020
Corporate income tax receivable	-	(265,286)
Corporate income tax payable	111,894	46,241
	111,894	**(219,045)**

	2021	2020
Balance at beginning of the year	(219,045)	(266,632)
Current tax expense for the year	86,126	35,348
Payments for income tax	(280,600)	(6,999)
Withholding tax expense	525,413	19,238
Corporate income tax payable / (receivable)	**111,894**	**(219,045)**

24.3 Deferred tax balances

The following are major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

2021	Opening balance	Recognised in profit or (loss)	Closing balance
Deferred tax assets / (liabilities) in relation to:			
Financial assets	(1,138,192)	1,011,408	(126,784)
Property, plant and equipment	20,270	(202,681)	(182,411)
Financial liabilities	-	-	-
Borrowings	2,386,661	(1,929,488)	457,173
Unused tax losses	2,804,743	1,372,861	4,177,604
	4,073,482	**252,100**	**4,325,582**

2020	Opening balance	Recognised in profit or (loss)	Closing balance
Deferred tax assets / (liabilities) in relation to:			
Financial assets	(196,597)	(941,595)	(1,138,192)
Property, plant and equipment	(14,150)	34,420	20,270
Financial liabilities	150,672	(150,672)	-
Borrowings	1,191,195	1,195,466	2,386,661
Unused tax losses	1,579,223	1,225,520	2,804,743
	2,710,343	**1,363,139**	**4,073,482**

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25. Revenue and expenses

25.1 Revenue

	2021	2020
Sales of knitwear	95,831,241	80,242,446
Sales of sewn	28,757,779	24,091,381
Sales of woven	14,979,473	11,435,946
Service income	1,168,015	862,561
Others	3,607,821	460,171
	144,344,329	**117,092,505**

As of 31 December 2021, revenue recognised from contracts made with customers was MNT 96,639,981 thousand and MNT 100,790,805 thousand as of 31 December 2020.

25.2 Cost of sales

	2021	2020
Sales of knitwear	51,940,605	46,616,231
Sales of sewn	20,018,053	16,071,278
Sales of woven	8,686,002	7,859,335
Cost of service	858,003	848,643
Others	4,040,824	141,001
	85,543,487	**71,536,488**

25.3 Expenses by nature

	2021	2020
Changes in inventories	55,292,968	(15,536,051)
Raw materials and consumables	8,180,268	57,881,272
Salary and related cost	29,200,030	33,052,956
Depreciation and amortisation	11,829,178	12,819,926
Advertisement expenses	33,122,725	24,112,408
Supplies and consumables	1,428,501	2,623,385
Professional service fees	7,528,964	1,171,977
Selling expenses	2,930,567	1,460,051
Transportation expenses	1,707,263	2,166,414
Others	9,527,804	9,245,727
Total cost of sales, selling and marketing, and general and administrative expenses	**160,748,268**	**128,998,065**

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25. Revenue and expenses (continued)

25.4 Selling and marketing expenses

	2021	2020
Salary and related cost	9,104,946	7,616,625
Depreciation and amortisation expenses	2,297,315	1,995,055
Advertisement expenses	33,122,725	24,112,408
Supplies and consumables	1,380,110	2,551,280
Utility expenses	94,658	236,952
Customer promotion expenses	116,905	144,786
Repairs and maintenances	153,590	309,239
Labour safety expenses	251,501	199,212
Selling expenses	2,930,567	1,460,051
Other taxes	357,626	429,174
Transportation expenses	1,707,263	2,166,414
Short term and low value leases	564,802	958,393
Insurance expenses	380,116	263,132
Business trips	49,472	114,047
Security expenses	-	7,115
Cleaning service	84,437	144,881
Fuel expenses	24,309	33,579
HR and related costs	245	23,553
Professional service fees	7,086,084	945,423
Communication expenses	105,538	97,759
Management fees	539,001	539,001
Other expenses	216,857	36,860
	60,568,067	**44,384,939**

25.5 General and administrative expenses

	2021	2020
Salary and related cost	7,505,012	5,548,677
Depreciation and amortisation expenses	2,761,025	2,382,308
Supplies and consumables	48,391	72,105
Utility expenses	29,895	91,681
Repairs and maintenances	222,039	143,598
Labour safety expenses	934,095	746,179
Bank charges	21,665	118,976
Other taxes	821,753	440,867
Insurance expenses	75,109	327,938
Business trips	16,536	9,570
Security expenses	529,394	577,746
Fuel expenses	61,042	87,794
HR and related costs	469,030	1,209,943
Professional service fees	442,880	226,554
Communication expenses	78,496	80,671
Other expenses	620,352	1,012,031
	14,636,714	**13,076,638**

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26. Finance and other income

	2021	2020
Interest income	30,585	60,405
Rental and other income	932,840	2,555,242
	963,425	**2,615,647**

27. Other gains (losses)

	2021	2020
Net foreign exchange gain (loss)	2,944,061	(8,511,518)
Net gain (loss) on disposal of property, plant and equipment and intangible assets	(78,409)	10,096
Gain on derecognition of right-of-use assets	48,066	20,769
	2,913,718	**(8,480,653)**

28. Finance cost

	2021	2020
Interest expense on borrowings	22,303,297	25,707,748
Interest expense on other payables (including non-current)	2,367,392	2,713,257
Interest expense on lease liabilities	363,392	408,201
Other finance cost	440,205	713,054
	25,474,286	**29,542,260**

29. Balances and transactions with related parties

29.1 Balances with related parties

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

	2021	2020
Receivables from related parties (Note 6)	30,222	215,053
Payable to related parties /Short-term/ (Note 14)	185,933	12,477,541
Payable to related parties /Long term/ (Note 18)	25,622,107	14,230,453

Liabilities to related parties are related to the purchase of shares of Goyo LLC from Tavan Bogd Trade LLC on credit terms payable in August 2020. This was subsequently extended to May 2024 in October 2020 by entering into an additional agreement with the parent company. The Group has not pledged any assets on the agreement.

29.2 Transactions with related parties

The following transactions were incurred with Tavan Bogd Trade LLC which is the Group's parent company:

	2021	2020
Advances received from parent (Note 17.2)	-	12,459,400
Payment of advances received from the parent (Note 17.2)	-	12,459,400
Purchases made from the parent	1,256,062	1,463,505
Sales made to the parent	39,134	4,392
Interest expenses paid to the parent	2,032,887	2,418,383

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29. Balances and transactions with related parties (continued)

29.2 Transactions with related parties (continued)

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

	2021	2020
Advances received from related parties (Note 17.2)	41,483,084	-
Payment of advances received from related parties (Note 17.2)	41,483,084	-
Purchases made from related parties	454,406	645,589
Sales made to related parties	343,699	341,646
Interest expenses paid to related parties	272,418	-

The following transactions were incurred with Khan Bank which is an associated entity of the parent company:

	2021	2020
Proceeds from borrowings received from Khan Bank (Note 17.2)	39,237,105	69,270,000
Repayment of borrowings received from Khan Bank (Note 17.2)	47,237,105	89,000,000
Sales made to Khan Bank	1,115,012	10,500
Interest expenses paid to Khan Bank	207,648	3,308,145

All transactions with related parties are on mutually agreed terms.

29.3 Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year was as follows:

	2021	2020
The total amount of salaries and bonuses of the leading management	1,546,153	1,323,099

30. Contingent liabilities and commitements

The Group may incur various commitments and contingent liabilities to meet the financial needs and requirements of its customers. As at 31 December 2021 (absent in 2020), the Group does not have any contingent liabilities and commitments, if it does, it incurs as follows.

30.1 Contingent liabilities

Guarantees commit the Group to make payments on behalf of related parties in the event of a specific act, generally related to tender and bid auction. They generally carry the same risk as loans even though they are contingent. No material losses are anticipated as a result of these transactions.

30.2 Commitments

Commitments means to extend credit representation on contractual commitments on borrowings and revolving credit. Commitments have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. No material losses are anticipated as a result of these transactions.

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31. Contingent liabilities and commitements (continued)

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 major litigations.

32. Financial instruments and financial risk management objectives

(1) Introduction

The main risks inherent in the Group's operations are credit risk, liquidity risk and market risk which includes: interest rate risk and currency risk.

The primary goal of risk management is to allocate capital to business segments commensurate with their risk/reward profiles and to maximise the Group's risk-adjusted return on capital through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group has a clearly defined risk management framework that is not designed to eliminate the risk but to optimise the risk and return trade-off thus keeping the suitable risk management system consistent with the Group's general concept and value, successful implementation and continuous improvements. The framework of "Risk management policy" is approved, supported and promoted by the Board of Directors (BoD) and is in place to ensure the following:

- The risk exposure is within the limits;
- The risk measure is in line with the business strategy as approved by the BoD;
- The capital allocation is consistent with the risk of exposures; and
- The Group's performance objectives are aligned with the risk appetite and tolerance.
- The risk management within the Group is carried out with strategic risk, compliance risk, financial risk, operational risk, force majeure and as well as risks that emerge time to time.

Risk management structure

The BoD acknowledges that one of the primary objectives is to explicitly enforce the collective oversight and risk governance responsibilities. The BoD adopts a "Three lines of defense" model in risk governance, where executive management is the first line of defense, the Risk Management Committee and the Senior Risk Officer are the second line of the defense and Internal Audit is the third line of the defense.

BoD's Risk and Audit Committee

The BoD'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

During the risk management processes throughout the Group, Internal Audit function follows the direction given by the Risk and Audit Committee. The Internal Audit function examines both the adequacy of the policies and procedures implemented at the Group and its compliance with the procedures and reports their findings to the BoD.

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

(1) Introduction (continued)

Risk Mitigation

Monitoring and controlling risks are primarily performed based on limits established by the BoD constantly. These limits reflect the business strategy and market environment of the Group as well as level of risk that the Group is willing to accept.

Basis sensitivity analysis is used to measure and analyse exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions. Specific measures are taken to reduce the Group's risk, which are described in more detail below.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

To avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. For example, it controls and manages concentrations by developing retail sales online, through in-store and ordering channels, opening branches in other international regions, or developing appropriate marketing policies.

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

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:

	2021	2020
Cash in bank	4,377,221	12,786,882
Deposit placed for lease stores	557,284	523,829
Trade and other receivables*	1,324,752	3,081,189
	6,259,257	**16,391,900**

*excludes taxes receivable of MNT 933,377 thousand in 2021 and MNT 2,915,071 thousand in 2020.

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

	2021	2020
Impairment loss on trade and other receivables	110,920	170,306
Impairment loss on bank balances	-	-
Reversal of impairment loss on trade and other receivables	(31,116)	(9,037)
	79,804	**161,269**

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

	2021	2020
Domestic	970,442	597,203
Foreign	354,310	2,483,986
	1,324,752	**3,081,189**

Currently, there is no independent rating agency service available in the local market. Therefore, the Group has adopted a policy of making credit sales with customers who have history of long and trustworthy relationship with the Group and making credit sales within the pre-approved credit limits. The annual sales contract is concluded with the customers and renewed annually, and the compliance with the contract terms is continuously monitored.

There are no measures taken to address credit risk related to financial assets other than insuring the Group's accounts receivable or securing them under a letter of credit. In 2021, there are no accounts receivable insured or guaranteed by a letter of credit (2020: MNT 987,706 thousand). The management of the Group considers that bank balances that are deposited with local banks or financial institutions with high credit ratings to be low credit risk financial assets. The management of the Group considers the probability of default is negligible and accordingly, no loss allowance was recognised.

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

31.1 Credit risk management (continued)

The management of the Group has made collective assessments and/or individual assessments on the recoverability of trade and other receivables based on historical settlement records and adjusted for forward-looking information. The Group determines the expected credit losses on trade and other receivables not credit-impaired by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past to status in terms of the provision matrix.

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

31 December 2021	Gross carrying amount	Loss allowance	Credit impaired
Neither past due nor impaired	1,293,857	-	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%
	3,168,271	**(1,843,519)**	**58.19%**

31 December 2020	Gross carrying amount	Loss allowance	Credit impaired
Neither past due nor impaired	2,742,486	-	0.00%
Past due 0-30 days	-	-	0.00%
Past due 31-60 days	10,055	-	0.00%
Past due 61-90 days	183,776	-	0.00%
Past due more than 91 days	2,035,885	(1,891,013)	92.88%
	4,972,202	**(1,891,013)**	**38.03%**

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

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2021	2020
Balance at 1 January	1,891,013	1,730,355
Loss allowance	110,920	170,306
Reversal of loss allowance	(31,116)	(9,037)
Amounts written off	(127,298)	(611)
Balance at 31 December	**1,843,519**	**1,891,013**

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.

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

31.1 Credit risk management (continued)

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.

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 BoD 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 detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group may be required to pay. The tables include both interest and principal cash flows.

31 December 2021	On demand and less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total	Carrying amount
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**

31 December 2020	On demand and less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total	Carrying amount
Trade and other payables (including non-current) *	2,070,357	3,734,856	15,918,331	15,415,328	37,138,872	34,830,878
Bond payables	-	-	-	-	-	-
Short-term and long-term borrowings	42,510,672	51,226,888	185,280,321	4,667,815	283,685,696	272,172,594
Short-term and long-term lease liabilities	116,757	350,274	919,390	2,157,727	3,544,148	2,902,049
	44,697,786	**55,312,018**	**202,118,042**	**22,240,870**	**324,368,716**	**309,905,521**

*excludes taxes payable of MNT 2,065,186 thousand in 2021 and MNT 2,058,370 thousand in 2020 and refund liabilities, no refund liabilities in 2021 and MNT 1,010,634 thousand in 2020.

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

31.3 Market risk

Market risk refers to the possibility that changes in market prices, such as foreign exchange rates, interest rates will affect the Group's profit or the value of its holdings of financial instruments. The Group focuses on two main market risk areas, which are interest rate risk and foreign currency risk. The objective and management of these risks are described in more detail below.

31.3.1 Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The cash flow interest rate risk arises from floating rate borrowings while fair value interest rate risk arises from fixed rate borrowings. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings. The Group does not use hedging instruments to manage interest rate risk.

At the reporting date the interest profile on the Group's interest-bearing financial instruments was:

	2021	2020
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	(230,685,710)	(266,845,503)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(31,284,393)	(36,886,369)
	(261,970,103)	**(303,731,872)**

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to floating interest rates for non-derivative instruments at the end of the reporting period. The floating interest rate liabilities assessment is prepared based on the assumption that any liabilities with floating interest rates were outstanding throughout the whole year. At the executive management level, interest rate risk assessment assumes that a possible change in interest rate increases or decreases by 50 basis points.

If interest rates 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 2021 would increase or decrease by MNT 156,422 thousand (31 December 2020: MNT 169,422 thousand). This is mainly attributable to the Group's exposure to interest rates on its floating interest rate borrowings.

In the opinion of the management of the Group, the expected change in interest rate will not have material impact on the interest income on pledged bank deposits and bank balances, hence sensitivity analysis is not presented.

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.

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

31.3 Market risk (continued)

31.3.2 Foreign currency risk management (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date presented in MNT are as follows:

31 December 2021	**USD**	**EUR**	**CNY**	**Other**
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	(1,023,891)	(732,018)	(66,505)	-
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)	-	-
	(67,235,921)	**(95,258,596)**	**950,246**	**5,566**

31 December 2020	**USD**	**EUR**	**CNY**	**Other**
Cash and cash equivalents	2,728,560	9,000,364	950,694	80
Trade and other receivables	496,644	1,533,944	422,176	-
Deposit placed for leased stores	56,990	326,899	-	-
Trade and other payables	(16,006,808)	(684,343)	(130,203)	(3,105)
Long-term other payables	(14,955,172)	-	-	-
Short-term and long-term borrowings	(35,769,005)	(105,505,456)	-	-
Lease liabilities	(489,467)	(755,710)	-	-
	(63,938,258)	**(96,084,302)**	**1,242,667**	**(3,025)**

The following significant exchange rates were applied during the year.

	Average rate		**Reporting date spot rate**	
(In MNT)	**2021**	**2020**	**2021**	**2020**
USD	2,849	2,813	2,849	2,850
EUR	3,372	3,212	3,223	3,496
CNY	442	408	447	436

Foreign currency sensitivity analysis

The Group is mainly exposed to USD, EUR and CNY (together referred to as "the foreign currencies"). The following table details the Group's sensitivity to a 10% increase or decrease in the MNT against the foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

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

31.3 Market risk (continued)

31.3.2 Foreign currency risk management (continued)

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 and after tax by the amount shown below. This analysis assumes all other risk variables remain constant.

	2021 (profit or loss before tax)		2020 (profit or loss before tax)	
	Strengthening (10% increase)	Weakening (10% decrease)	Strengthening (10% increase)	Weakening (10% decrease)
USD	6,723,592	(6,723,592)	6,393,826	(6,393,826)
EUR	9,525,860	(9,525,860)	9,608,430	(9,608,430)
CNY	(95,025)	95,025	(124,267)	124,267
Other	(557)	557	303	(303)

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 values of financial instruments

The Group follows the following hierarchy for determining and disclosing the fair value of financial instruments based on the level of significant inputs used in the measurement.

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

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

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

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

(i) Financial assets and liabilities for which fair value approximates carrying amount

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

(ii) Fixed rate financial instruments

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

The Group's financial instruments consist of financial assets and financial liabilities carried at amortised cost.

The management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

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

31.4 Fair values 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:

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortised cost				
Cash and cash equivalents	4,389,479	4,389,479	12,798,745	12,798,745
Trade and other receivables	1,324,752	1,324,752	3,081,189	3,081,189
Deposit placed for leased stores	557,284	557,284	523,829	523,829
	6,271,515	**6,271,515**	**16,403,763**	**16,403,763**
Liabilities carried at amortised cost				
Trade and other payables	(4,040,556)	(4,040,556)	(19,875,706)	(19,875,706)
Bond payables	(9,877,213)	(9,877,213)	-	-
Short-term and long-term borrowings	(226,058,669)	(226,058,669)	(272,172,594)	(272,172,594)
Short-term and long-term lease liabilities	(1,587,437)	(1,587,437)	(2,902,049)	(2,902,049)
Other long-term payables	(25,622,107)	(25,622,107)	(14,955,172)	(14,955,172)
	(267,185,982)	**(267,185,982)**	**(309,905,521)**	**(309,905,521)**

32. Segment information

For the purpose of management analysis and decision making, the Group allocates the sales based on the customer type, location, sales delivery and type into the following 3 operational segments, 'Domestic', 'Export / wholesale', and 'Export / online'.

Other than Revenue and Cost of sales, no other income and expenses are allocated for segment reporting purposes. Similarly, the Group decided to perform constant monitoring, but to not report the assets and liabilities in segments.

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32. Segment information (continued)

32.1 Segment revenue and results

		Segment revenue		Segment profit	
		2021	**2020**	**2021**	**2020**
Domestic sales	Knitwear	33,409,990	22,175,121	11,767,768	5,610,207
	Sewn	21,939,273	20,014,119	5,858,368	6,256,131
	Woven	7,938,312	6,151,370	3,018,996	1,508,852
	Service income	1,168,015	862,561	310,012	13,918
	Other	2,203,938	267,989	(1,345,005)	212,466
		66,659,528	49,471,160	19,610,139	13,601,574
Export sales /wholesale	Knitwear	29,990,703	31,890,120	12,586,466	12,297,385
	Sewn	1,970,595	749,403	663,291	223,757
	Woven	3,459,143	3,250,598	1,303,356	1,172,734
	Other	1,401,991	131,323	912,332	81,608
		36,822,432	36,021,444	15,465,445	13,775,484
Export sales /online	Knitwear	32,430,548	26,177,206	19,536,402	15,718,624
	Sewn	4,847,911	3,327,859	2,218,067	1,540,215
	Woven	3,582,018	2,033,978	1,971,119	895,025
	Other	1,892	60,858	(330)	25,095
		40,862,369	31,599,901	23,725,258	18,178,959
		144,344,329	**117,092,505**	**58,800,842**	**45,556,017**
Finance and other income				963,425	2,615,647
Other gains (losses)				2,913,718	(8,480,653)
Finance cost				(25,474,286)	(29,542,260)
Selling and marketing expenses				(60,568,067)	(44,384,939)
General and administrative expenses				(14,636,714)	(13,076,638)
Impairment losses on financial assets				(110,920)	(170,306)
Loss before tax				**(38,112,002)**	**(47,483,132)**

No single customer contributed 10% or more to the Group's revenue for both 2021 and 2020.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2021
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

32. Segment information (continued)

32.2 Geographical information

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

	Revenue from external customers		Non-current assets	
	2021	**2020**	**2021**	**2020**
Mongolia	66,659,528	49,476,685	146,667,250	157,811,034
Korea	15,646,928	14,827,763	-	-
Germany	15,559,787	12,659,093	623,467	1,471,748
France	13,095,680	11,733,411	-	-
USA	10,349,694	6,631,629	382,809	542,626
China	4,879,404	3,762,446	53,622	-
Japan	4,483,493	2,915,926	-	-
Russia	2,703,211	1,845,834	-	-
United Kingdom	2,026,382	3,036,048	-	-
Italy	1,491,004	2,849,886	-	-
Other counties	7,449,218	7,353,784	-	-
	144,344,329	**117,092,505**	**147,727,148**	**159,825,408**

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 of 31 December 2021 and 2020.

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2021
(IN THOUSANDS OF MONGOLIAN TUGRUGS)

35. Events after the reporting period

On 6 January 2022, the Group has repaid a total of USD 1.5 million of the borrowings from EBRD.

On 18 February 2022, terms of the USD 10 million loan with a 6.7% interest rate per annum for a period of 24 months with Tavan Bogd LLC were amended to MNT 30 billion with a 12-month term and an interest rate of 11% per annum.

On 14 March 2022, half of the EUR 16 million short-term borrowings from IIB (EUR 8 million) was repaid and the remaining EUR 8 million was restructured into long-term borrowings due in 2027. The Group retained the right to withdraw the repaid EUR 8 million from IIB until maturity.

The Group has repurchased MNT 5.4 billion of the MNT 10 billion bond payables as of 21 March 2022.

The economic impacts of the Covid-19 pandemic, which spread in late 2019, continued into 2022. As part of the vaccination project launched in 2021 to support the social and economic recoverability, 69.8% of the total population was covered by the first dose, 66.7% by the second dose, and 31% by the booster dose. This has allowed the easing of pandemic related restrictions on majority of business operations.

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 COMPANY
GOBI IN 2021
OUR OPERATION
SUSTAINABLE DEVELOPMENT
FINANCIAL STATEMENT

LOCAL STORE LOCATION

FACTORY STORE
Industrial street, Khan-Uul district, Ulaanbaatar
Утас: 7004 8888

GALLERIA ULAANBAATAR
At the east of the Government House, Sukhbaatar district, Ulaanbaatar
Tel: 7004 8888

DARKHAN BRANCH
"New Darkhan" International Shopping Center, Darkhan city
Tel: 95056656, 99376775

OVERSEAS STORE LOCATION

BRANCH STORE

BERLIN, GERMANY
GOBI MONGOLIAN CASHMERE
Knesebeckstr.30, Berlin, Germany
www.gobicashmere.com
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FRANCHISE STORES

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ALMATY, KAZAKHSTAN
YAMA BY GOBI
Г. Алматы, ул. Сатпаева 3, тц Colibri, 2 этаж, бутики Yama cashmere by Gobi, yama cashmere by gobi for man

FUZHOU, CHINA
GOBI MONGOLIAN CASHMERE
Fujian Province, Fujian Province, Taijiang District Industrial Road, Baolong Xinhua second floor Gobi store

HAILAAR, CHINA
GOBI MONGOLIAN CASHMERE
No.3-2, Dongda street, Hailar dictrict, Hulunbur city, Inner Mongolia, China

HUHHOT, CHINA
GOBI MONGOLIAN CASHMERE
Zhongshan West Road, Hohhot City, Inner Mongolia, National Shopping Center, West 3rd Floor, Cashmere District

BEIJING, CHINA
GOBI MONGOLIAN CASHMERE
12B03,Tower, Henghua International Business Center, NO.26, Yuetan North Street, Xicheng District, Beijing 100045

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HONG KONG, CHINA
GOBI MONGOLIAN CASHMERE
Horizon Plaza Factory Outlet Stores 2 Lee Wing Street, Central Hong Kong (19 floor no.1902)

ULANHOT, INNER MONGOLIA, CHINA
GOBI MONGOLIAN CASHMERE
No.2-12 of Yukeduolan Park One-staged, Keerqin town, Keyouqianqi, Inner Mongolia, China

MANZHOULI, CHINA
GOBI MONGOLIAN CASHMERE
Hulunbuir province, Manzhouli city, China Russia Free Trade Zone, Aimin Store

SIYANG, CHINA
GOBI MONGOLIAN CASHMERE
3F, Shopping Center, Beijing Rd, Si yang city, Jiang Su province

SIYANG, CHINA
GOBI MONGOLIAN CASHMERE
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KIEV, UKRAINE
GOBI PREMIUM CASHMERE
Ул.7А Леся Украинка

GOBI

MONGOLIAN CASHMERE

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