



"БЭСТ ФОРТУНА АУДИТ" ХХК

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2024. 04. 05 № 63

танай _____-ны № _____-т

**ХАРААТ БУС АУДИТОРЫН
ДҮГНЭЛТ**

We audited the Statement of Financial Position, Statements of Income, Changes in Equity, and Cash Flow Statements as of December 31, 2023, as well as additional explanatory notes and accounting policies related to these statements of Mongol Textile JSC

In our opinion, the Financial Statements have been presented in accordance with the IFRS and the accounting and reporting procedures and instructions issued in accordance with the IFRS and the order of the Minister of Finance of Mongolia.

Basis of conclusion

In the course of the audit, the accounting principles, selected and used methods, and internal control system were studied. We performed audit sampling and other procedures to obtain reasonable evidence that the financial statements are not materially misstated, and we believe that the audit we performed provided sufficient and appropriate audit evidence to support our audit opinion.

Responsibilities of Management and Those Charged with Governance for Financial Reporting

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Accounting Act, and is free from material misstatement due to fraud or error, and for selecting and applying appropriate accounting policies.

Accountability for internal controls that it determines are critical to fair presentation. Those charged with governance are responsible for overseeing the financial reporting process.

Auditor's Responsibilities

Our objective is to comply with ethical requirements and to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to prepare an auditor's report that includes our opinion. Substantive assurance is a high level of assurance, but does not guarantee that an audit performed in accordance with International Standards on Auditing will always detect material misstatements that exist. Misstatements result

from fraud or error and are considered material if, individually or in the aggregate, they would materially affect the economic decisions of users based on the financial statements.

DIRECTOR

J. OYUNTSETSEG

UNDER THE REPORTING LAW:	"MONGOL TEXTILE" JSC
ADDRESS:	Own building, Chinggis Avenue 30/1, 2 Khoroo, Khan-Uul district, Ulaanbaatar
ESTABLISHED DATE:	In 1934, it was established under the name of Esgii Tsembenii Factory. In 1959, it expanded into an independent Woolen Textile Factory. In 1992, the structure changed and became "Mongol Textile" JSC.
STATE REGISTRATION NUMBER:	9010001064
REGISTRATION NUMBER:	2075024
PROPERTY TYPE:	Joint stock company
ACTIVITY DIRECTIONS:	<ul style="list-style-type: none"> ○ 1410 Textile industry ○ Foreign Trade
OWN ASSETS:	113,358,907.00
NUMBER OF SHARES OUTSTANDING	474,164 units
NOMINAL PRICE PER SHARE	239.0711653 MNT
CHAIRMAN OF THE BOARD	R.Enkhtaivan was appointed as the chairman of the board of directors by resolution No. 07 dated November 24, 2021.
EXECUTIVE DIRECTOR:	S.Mandukhai was appointed as the executive director by the resolution No. 07 of the board of directors dated November 24, 2021 .
GENERAL ACCOUNTANT:	R.Surenkhorol was appointed as the chief accountant by order No. 39/23 dated April 1, 2023 .

1. STATEMENT OF FINANCIAL POSITION*(in thousands)*

EXHIBITIONS	31.12.2022	31.12.2023
PROPERTY		
Current assets		
Cash and cash equivalents	12,323.2	2,559.7
Accounts receivable	1,214,312.6	1,320,573.5
Taxes and VAT receivables	17,729.9	-
Other receivables		
Inventory	430,531.6	329,126.7
Prepaid expenses/bills	991,160.7	330,399.6
Amount of working capital	2,666,058.0	1,982,659.5
Non-current Assets		
Fixed assets	1,557,750.3	4,489,425.9
Intangible assets	-	23,392.0
Amount of non-current assets	1,557,750.3	4,512,817.9
NET WORTH	4,223,808.3	6,495,477.4
Short-term liabilities		
Accounts payable	1,657,065.3	1,087,791.4
Payment of wages	8,690.0	12,206.3
Tax payable	92,588.5	78,128.9
Payment of Social Security	4,729.1	8,437.6
Short term loan	749,207.3	224,631.6
Son's arrears	-	
Prepaid income	218,046.3	78,842.6
Other short-term liabilities	-	-
Amount of short-term liabilities	2,730,326.5	1,490,038.4
Long-term liabilities		
Long term loan	695,611.9	1,125,000.0
Amount of long-term liabilities	695,611.9	1,125,000.0
Total amount of liabilities	3,425,938.4	2,615,038.4
OWNER'S PROPERTY		
Equity capital	113,358.9	113,358.9
Additional paid-in capital	-	
Capital revaluation surplus	-	3,119,548.2
Other parts of the owner's property	79,080.9	79,080.9
Accumulated profit	605,430.1	568,451.0
OWNER'S EQUITY	797,869.9	3,880,439.0
LIABILITIES AND OWNERS' EQUITY	4,223,808.3	6,495,477.4

The related supplementary notes form an integral part of these financial statements.

2. STATEMENT OF INCOME AND RESULTS*(in thousands)*

EXHIBITIONS	31.12.2022	31.12.2023
Sales revenue	220,567.9	859,708.3
Cost of sales	191,299.7	935,422.4
Total profit	29,268.2	(75,714.1)
Rental income	1,452,304.6	1,825,981.5
Other income	53,238.0	-
Sales and marketing expenses	45,944.2	59,087.4
General and administrative expenses	1,106,289.0	1,632,803.9
Other cost	21,476.6	90,239.4
Foreign exchange gain (loss)	435.4	(7,218.3)
Profit (loss) before tax	361,536.4	(31,863.3)
Income tax expense	37,852.7	5,115.8
NET RESULTS FOR THE REPORTING PERIOD	323,683.7	(36,979.1)

The related supplementary notes form an integral part of these financial statements.

3. REPORT OF CHANGES IN OWNERSHIP

(in thousand MNT)

EXHIBITIONS	Property	Additional paid-in capital	Capital revaluation surplus	Other parts of the owner's property	Accumulated profit	Total
Balance as of 01/01/2022	113,358.9		-	79,080.9	281,746.5	474,186.3
Effects of Registration Policy Changes and Error Corrections						
Corrected Balance	113,358.9			79,080.9	281,746.5	474,186.3
Net result for the reporting period					323,683.6	323,683.6
Other comprehensive income						
Changes in ownership						
Amount of revaluation increment applied						
Balance as of December 31, 2022	113,358.9	0.0	0.00	79,080.9	605,430.1	797,869.9
Effects of Registration Policy Changes and Error Corrections						
Corrected balance	113,358.9	0.0	0.0	79,080.9	605,430.1	797,869.9
Other comprehensive income						
Changes in ownership			3,119,548.2			3,119,548.2
Realized amount of revaluation increment						
Net result for the reporting period					(36,979.1)	(36,979.1)
Balance as of December 31, 2023	113,358.9	0.0	3,119,548.2	79,080.9	568,451.0	3,880,439.0

The related supplementary notes form an integral part of these financial statements

4. CASH TRANSACTION STATEMENT

(in thousand MNT)

EXHIBITIONS	Balance as of 31.12.2022	Balance as of 31.12.2023
NET CASH FLOW FROM OPERATING ACTIVITIES		
Operating cash flow		
Sales revenue	305,415.4	2,561,390.5
Other cash income	1,631,917.9	611.2
Amount of cash flow from operating activities	1,937,333.3	2,562,001.7
Cash expenditure of main activities		
Issued to employees	225,836.2	300,602.6
Paid to Social Security	76,901.2	113,722.8
Paid for the purchase of inventory	124,487.0	252,633.7
Amount paid for operating expenses	420,158.0	748,872.4
Paid for fuel, transportation and spare parts	17,269.6	17,377.1
Other amounts paid to preparation suppliers	282,507.7	309,970.2
Paid for interest		146,268.1
Paid to the tax authorities	117,587.6	116,049.5
Paid for insurance	4,976.8	3,125.6
The amount of cash expenses of the main activity	1,269,724.1	2,008,622.0
NET CASH FLOW FROM OPERATING ACTIVITIES	667,609.2	553,379.7
NET CASH FLOW FROM INVESTMENT ACTIVITIES		
Income from sale of fixed assets	10,043.5	-
Repayment of loans and cash advances granted to others	514,366.6	1,634,050.8
Amount of cash income from investment activities	524,410.1	1,634,050.8
Paid for acquiring fixed assets	157,570.3	99,193.9
Loans and advances to others	1,006,736.1	1,262,939.1
The amount of money spent on investment activities	1,164,306.4	1,362,133.0
RESULTS OF NET CASH TRANSACTIONS FROM INVESTMENT ACTIVITIES	(639,896.3)	271,917.8
NET CASH FLOWS FROM FINANCIAL ACTIVITIES		
Received from loans and debt securities	1,933,685.0	11,782.2
Money paid for loans and debt securities	1,974,622.9	839,625.0
NET CASH FLOW FROM FINANCIAL ACTIVITIES	(40,937.9)	(827,842.8)
Exchange rate difference	435.4	(7,218.2)
ALL PURE CASH TRANSACTIONS	(12,789.6)	(9,763.5)
Initial balance of cash and cash equivalents	25,112.8	12,323.2
Initial balance of cash and cash equivalents	12,323.2	2,559.7

The related supplementary notes form an integral part of these financial statements

AUDIT REPORT CLARIFICATION

2023 . (about the financial statements ended on 12.31)

"Mongol Textile" JSC first started its operations in 1934 under the name "Felt Tsembe Factory", and in 1959 it expanded into a Woolen Textile Factory, and in 1992 it was organized as "Mongol Textile" Joint Stock Company, full-scale production of wool, cashmere spinning, textile and knitting with main processing workshops and laboratories is being carried out until now. Since 2018, "Mongol Textile" JSC has expanded the spinning line by carrying out technical and technological innovation and expanded its capacity to produce 75,000 kg of spun yarn.

"Mongol Textile" JSC has a registered capital consisting of 474,164 ordinary shares with a nominal value of 239.07 MNT each, and 82.64 percent of the shares are owned by 3 shareholders.

"Mongol Textile" JSC financial statements of 2023 were examined within the framework of the Law on Auditing, Law on Accounting, International Auditing Standards /IAS/, Ministry of Finance and relevant regulations and decisions of the Financial Regulatory Commission .

Audited financial statements for 2023 only year-end assets, financial status, and operating results are shown.

The management of the organization prepared financial statements based on the principle of continuity, and recognized income and expenses on the accrual basis.

"Mongol Textile" JSC has not approved the income and expenditure budget and operational plan for the reporting year by the shareholders' meeting and the board of directors.

"Mongol Textile" JSC adheres to the Accounting Law, the Company Law, and the instructions and regulations issued by the Ministry of Finance when maintaining accounting and preparing financial statements.

1. Cash

The financial assets of the organization consist of cash in the cash register and current accounts, and the financial assets are classified by currency type, purpose, and location, and are valued at nominal value and included in the balance sheet. We tested the transactions and balances of cash accounts for the reporting year by means of audit sampling and verification and found the following information. It includes:

a) Cash in cash register

(in thousand MNT)

Type	Currency	31.12.2022	31.12.2023	Change
Cash	MNT	1,570.3	1,041.1	(529.2)
Amount of cash		1,570.3	1,041.2	(529.1)

b) account in the bank

(in thousand MNT)

D/d	Corresponding bank	Currency	Account number	31.12.2022	31.12.2023	Change
1	KHAN Bank	₮	5022036264	34.1	37.0	2.9
2	KHAAN Bank /card/	₮	-	84.3	5.8	(78.5)
3	KHAAN Bank /salary/	₮	-	266.9	0.1	(266.8)
4	Central bank	₮	1105103124	8,058.9	1 , 101.5	(6,957.4)
5	Trade Development Bank	₮	427031521	62.2	68.5	6.3
6	Khas Bank	₮	5000232576	115.1	47.4	(67.7)
7	Trade Development Bank	\$	427031522	125.6	75.9	(49.7)
				0.03	0.02	(0.01)
8	Central bank	\$	1105103125	2,005.8	182.3	(1,823.5)
				0.6	0.05	(0.55)

The amount of money in the current account			10,752.9	1,518.5	(9,234.4)
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Cash balance at the end of the reporting year is 9,763.5 thousand MNT decreased due to the payment of long and short-term loans and other liabilities.

2. Receivables

Receivables are classified as accounts receivable from related companies, receivables from employees, and tax receivables at nominal value and classified by customers, and the calculation, recognition and evaluation of receivables are in accordance with the principles of accounting laws, standards, and guidelines. The following information was prepared using the information.

(in thousands)

D/d	Classification of Receivables	31.12.2022	31.12.2023	Change
1	Accounts Receivable Em I sab	1,092,479.2	1,092,479.2	-
2	Accounts Receivable Mongolian Textil	119,951.7	119,951.7	-
3	Accounts Receivable Shima Knitting	-	108,142.6	108,142.6
4	Receivables from employees	1,881.7	-	(1,881.7)
5	CIT receivables	17,729.9	-	(17,729.9)
Amount receivable		1,232,042.5	1 , 320,573.5	88,531.0

At the end of the reporting year, receivables increased by MNT 88,531.0 thousand from the previous year, due to the settlement between related companies related to the purchase of equipment.

3. Prepaid expenses and estimates

(in thousands)

EXHIBITIONS	31.12.2022	31.12.2023	Different
Prepaid expenses	773,680.2	330,399.6	(443,280.6)
Prepaid billing	217,480.5	-	(217,480.5)
Amount of prepaid expenses	991,160.7	330,399.6	(660,761.1)

At the end of the reporting year, the balance was reduced by MNT 660,761.1 thousand after calculating the previous year's withdrawals.

4. Inventory

(in thousands)

D/d	Inventory type	31.12.2022	31.12.2023	Change
1	Raw material	50,148.4	-	(50,148.4)
2	Finished product	330,065.0	191,010.6	(139,054.4)
3	Supply materials	20,517.5	-	(20,517.5)
4	Work in progress	29,800.7	138,116.1	108,315.4
Score		430,531.6	329,126.7	(101,404.9)

Inventory balance in the reporting year is 101,404 from the previous year . The decrease of 9 thousand MNT is related to the increase of sales by 585,902.4 thousand MNT from the previous year.

5. Fixed assets

Fixed assets are valued at historical cost, classified by type and purpose, and recorded in nominal accounts and depreciated using the straight-line method during the period of use. Detailed records and balance sheets show the initial cost of assets and accumulated depreciation side by side.

In the reporting year, 83,412.0 thousand MNT was purchased as equipment, vehicles, furniture, computer equipment and capitalized as tangible assets, 11,119.1 thousand MNT was capitalized for major repairs, and the company's real estate was reassessed, and the difference in revaluation was recorded as 3,152,450.1 thousand MNT increased the cost of construction. Software worth 32,138.2 thousand MNT recorded in other fixed assets was transferred to intangible assets. In the current year, a total of 283,167.3 thousand MNT depreciation was recorded and the depreciation was classified by cost centers.

The recording of the original cost of property, plant and equipment was free of material errors, and the opening and closing balances of the statement are shown below.

(in thousands)

Property	Initial cost		Accumulated depreciation		Residual cost	
	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023
Fixed assets	2,187,162.8	5,402,005.9	629,412.6	912,579.9	1,557,750.2	4,489,426.0
Intangible assets	-	32,138.2	-	8,746.2	-	23,392.0
SCORE	2,187,162.9	5,434,144.1	629,412.6	921,326.1	1,557,750.2	4,512,818.0

5. Liabilities

Liabilities are assessed at nominal value, accounts are opened for each client organization and legal entity, and the liabilities on the first and last day of the report are expressed in the following amounts and reflected in the primary and summary records. It includes:

Types	31.12.2022	31.12.2023	Change
Accounts payable	1,657,065.3	1,087,791.4	(56 9,2 73 . 9)
Payment of wages	8 , 690.0	12,206.3	3, 51 6.3
CIT Payables	30,764.0	12,281.7	(1 8 , 482 . 3)
Payables of PRC	4,260.2	8,178.3	3, 918 . 1
VAT payable	46,983.5	47,088.1	104 . 6
Other tax liabilities	10,580.8	10,580.8	-
Payment of Social Security	4,729.1	8,437.6	3,708.5
Short term loan	749,207.3	224,631.6	(524,575.7)
Prepaid income	218,046.3	78,842.6	(139,203.7)
Long term loan	695,611.9	1,125,000.0	429,388 . 1
Debt amount	3,425,938 . 4	2,615,038 . 4	(810 , 900.0)

It is believed that there are no material errors in the accounting of liabilities and the calculation of balances. During the reporting period, short-term loans, tax debts, and debts to customer organizations were paid off, and the total amount of outstanding debts decreased by MNT 810,900.0 thousand.

6. Property of Owner

(in thousands)

D/d	Property type	31.12.2022	31.12.2023	Change
1	Equity capital	113,358.9	113,358.9	-

2	Capital revaluation surplus	-	3,119,548.2	3,119,548.2
3	Other parts of the owner's property	79,080.9	79,080.9	-
5	Accumulated profit	605,430.1	568,451.0	(36,979.1)
	Score	797,8 69 . 9	3, 880 , 43 9. 0	3,082,569.1

In Thailand, the amount of the owner's property increased by 3,082,569.1 thousand MNT, which is due to the revaluation of the real estate and the inclusion of the revaluation results in the accounting.

7. Income and results

(in thousands)

EXHIBITIONS	31.12.2022	31.12.2023	Different
Sales revenue	220 , 5 6 7 . 9	859,708.3	639,140.4
Rental income	1,452,304.6	1,825,981.5	373,676.9
Other income	53, 238 . 0	-	(53 , 238.0)
Amount of operating income	1,726,110.5	2,685,689.8	959,579.3
Cost of sales	191,299.8	935 , 422 . 4	744,122.6
Sales and marketing expenses	45 , 944 . 2	59 , 0 8 7 . 4	13,143.2
General and administrative expenses	1,106,288.9	1,632,803.9	52 6 , 515 . 0
Other cost	21,476.6	90,239.4	68,762.8
Amount of operating expenses	1 , 365 , 009 . 5	2,7 17 , 553 . 1	1,352 ,5 43 . 6
Net result for the reporting period	323.6 83.7	(36,979.1)	(360,662.8)

Income from the previous year was 959,579.3 thousand MNT or 55.6 percent, operating expenses increased by 1,352,543.6 thousand MNT or 99.1 percent, including the cost of sold products by 389.0 percent, and sales, marketing, and general management expenses by 46.8 percent, respectively, and the financial report stated that it operated with a loss of 36,979.1 thousand MNT. It is believed that the income, expenses and results determined by the results report of the organization do not contain material errors based on the results of the tests performed by the selective audit sample and other methods.

Sales revenue and cost of sold products have increased significantly compared to the previous year, which is due to the fact that in the previous year, export sales were reported as other income, and expenses related to production activities were reported as administrative expenses in the reporting year.

8. General and administrative, sales and marketing expenses

(in thousand MNT)

EXHIBITIONS	General and administrative expenses		Sales and marketing expenses	
	202 2 .12.31	202 3 .12.31	202 2 .12.31	202 3 .12.31

1	Basic and additional salary	169,569.0	112,375.8		
2	Social security contributions	37,564.6	15,440.3		
3	Cost of duties, fees and charges	49,419.8	46,856.9		
4	Insurance costs	4,976.8	2,841.5		
5	Cost of professional services	99,534.2	138,697.2		9,716.9
6	Mission expenses	-	9,356.3		
7	Depreciation cost	126,602.5	198,244.4		
8	Rental costs	13,111.9	116,231.8		25,690.7
9	Operating costs	354,183.9	648,605.0		
10	Security guard costs	3,957.0	4,371.8		
11	Maintenance costs	30,233.7	221,820.7		
12	Cleaning service costs	44,682.3	51,218.5		
13	Stationery costs	2,765.1	29.4		
14	Postal costs	16,772.4	9,716.9		
15	Fuel costs	6,273.6	4,266.9		
16	Reception expenses	8,731.0			8,489.8
17	Advertising costs			45,944.2	15,190.0
18	Transportation costs	-	16,383.7		
19	Labor protection costs	1,256.6	3,587.9		
20	Other cost	136,654.5	32,758.9		
Amount of operating expenses		<u>1,106,288.9</u>	<u>1,632,803.9</u>	<u>45,944.2</u>	<u>59,087.4</u>

In the reporting year, the general and management expenses increased by 47.6 percent or 526,515.0 thousand MNT from the previous year, of which the operating expenses increased by 294,421.1 thousand MNT, and the maintenance expenses increased by 191,587.0 thousand MNT. In the reporting year, the main reason for the increase in expenses was the increase in the electricity consumption of tenants and the maintenance of some objects.

It is necessary to pay attention to the fact that the relevant expenses are not allocated to sales and marketing expenses and are recorded as administrative expenses in the next fiscal year, and to follow the procedures specified in the accounting policy document.

We would like to thank the staff for their cooperation during the audit.

AUDITOR'S RECOMMENDATION

April 5, 2024, Ulaanbaatar city

Based on the 2023 audited report, the auditor has the following recommendations.

1. Accounts receivable and payable

Auditor's observations:

- a) In the reporting year, the receivables of 1,212,430.9 thousand MNT from related companies, Em I Sab and Mongolian Textile, were not confirmed and the balance was not confirmed. Account receivables are calculated at the closing exchange rate at the end of the reporting year and no exchange rate difference has been entered.
- b) 5,000.0 thousand MNT placed as thermal energy deposit in UBDS JSC was not included in the accounting,
- c) NDSH payables in the financial statement are understated by 551.7 thousand MNT from the balance in the NDSH report,
- d) 1,083,545.3 thousand MNT payables related to related companies and employees were not verified,
- e) It is not clear what the balance of 330,399.6 thousand MNT of pre-paid expenses/calculations was paid for, when and to which organization,
- f) It is unclear when the customer will recognize the income of 78,842.6 thousand MNT.

Auditor's recommendations :

- a) At the end of the year, verify the balance of receivables and payables of customer organizations, present to the board of directors and make a decision on how to settle related parties' receivables and payables and long-standing receivables,
- b) Accounts receivable and payable should be fully reflected in accounting,
- c) Work to clearly follow the procedures for settlement and purchase of goods between related parties.

2. Asset registration

Auditor's observations:

1. The right to own 32,960 m2 of land owned by the organization is not reflected in the financial report,
2. 3,252.3 thousand MNT was paid for real estate tax, but report X was sent

Auditor's recommendation:

1. Valuing land ownership rights and registering them as intangible assets,
2. Prepare real estate tax report accurately and send it within the legal period.

3. Related to inventory

Auditor's observations:

An order was issued for inventory and fixed asset inventory at the end of 2023, but the results of the inventory were not discussed and calculated, and the results were not reflected in the accounting.

Auditor's recommendation:

Article 12 of the Law on Accounting, 12.2. The calculation of assets and settlements must be done in the following cases, 12.2.1. Before issuing the annual financial report; to implement the provision

4. Expense records

Auditor's observations:

Costs of work in progress and costs related to cost of goods sold were not recorded by cost item, sales and marketing costs were not recorded separately, and most costs were recorded as administrative costs.

Auditor's recommendation:

Unfinished production costs should be classified in the financial program as direct labor, direct materials, and production overheads, and production overheads should be classified as production costs other than wages, social security, and materials (maintenance, depreciation, cleaning services, water, heat, electricity, food for factory workers, and labor protection (clothing, fuel, security, outsourced work, other expenses) should be classified and registered by item.

RECOMMENDED BY:

"BEST FORTUNA AUDIT " LLC

DIRECTOR J. OYUNTSETSEG

CHIEF AUDITOR

B. NARANGEREL