GOBI

MONGOLIAN CASHMERE

GOBI JSC

ANNUAL REPORT 2017

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OUR
COMPANY

COMPANY INTRODUCTION

OUR COMPANY

Company name	Gobi Joint Stock Company
Business Operations	Processing of goat cashmere and camel wool and productions of finished goods and garments
Company address	Gobi JSC building, Industrial street, 3rd sub-district, Khan Uul district, Ulaanbaatar-17062, Mongolia. PO box: 36/434 Gobi JSC Phone: (976)-70139977 Fax: (976)-70143081 E-mail: info@gobi.mn Web: www.gobi.mn Facebook: GobiCashmere Online shop: www.gobicashmere.com
Company management	Chairwoman of the Board: Gerelmaa Damba Chief Executive Officer: Baatarsaikhan Tsagaach
Founded in	5th of September 1981
Number of employees	1,729
Factory processing capacity (per annum)	Process 750 tons of raw cashmere 500 tons of yarn, 25 tons of fine yarn 1,000,000 meters of knitted garments 1,100,000 meters of woven fabric 100,000 pieces of cashmere coats and jackets
Number of stores	Domestic stores Ulaanbaatar 7 Darkhan 1 International stores Branch stores 5 Franchises 50

OUR COMPANY


MISSION

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.

CORE VALUES

- Professionals and employees who devote their skills and talents for the development of the company
- Our loyal customers, clients, and business partners
- Mongolia's unique cashmere
- Globally leading manufacturing technology

OPERATING PRINCIPLE

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

COMPANY MOTTO

A globally renowned brand


OUR COMPANY

HISTORY TIMELINE

1976
Within the scope of the Unido project a trial factory to process goat cashmere and camel wool is built.

1977
The government of Japan provides a JPY5.0 billion grant to the People's Republic of Mongolia to build a cashmere and camel wool-processing complex in Ulaanbaatar, Mongolia.

1981
The Gobi factory, through the technical assistance of the Japanese government to Mongolia, opens its doors becoming the first Mongolian and Japanese cooperation.

1987
A fully computer controlled knitting line from Japan (SET-092) is commissioned at the Gobi Corporation.

1991
International ISO-9000 standard is introduced making the Gobi Corporation the first ISO certified company in Mongolia. 98 percent of all garments and products are exported.

1993
The Mongolian State Property and Privatization Committee decides to partially privatize the company and lists 25.1 percent, or 1,919,061 shares, of the Gobi Corporation on the Mongolian 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 globally the company creates a subsidiary in Japan named 'Altai', 'Gobi Europe' in Belgium, 'Gobi-USA' in the United States of America, and enters into cooperation agreements with partners from 30 nations.

2000
Gobi introduces yarn-dying technology. State of the art Stoll-330 computer automated knitting equipment is acquired.

2007
FCI LLC acquires the 73.45 percent formerly state owned shares in Gobi JSC through an internationally open tender. Gobi JSC is now fully owned by the private sector.

2008
The Gobi outlet store opens in close proximity to the factory in Ulaanbaatar. Famous Japanese designer Saiko Keijiro designed the building.

2009
Gobi JSC opens a store in Tokyo, Japan. A consulting agreement with the Italian consulting company 'VVA Consulting Company' is signed. The company gradually upgrades its equipment and plant.

2010
In anticipation of the 30th anniversary of Gobi JSC the company signs a cooperation agreement with famous Italian designer Saverio Palatella. The company introduces cashmere-printing technology for the first time in Mongolia.

2011
Gobi JSC's factory output capacity doubles, and the first collection designed by Saverio Palatella is introduced named 'Gobi by Saverio Palatella'. The 30th anniversary of the company is celebrated.

2012
Gobi opens a store in the city center of Ulaanbaatar close to the Mongolia Postal head quarters, moving closer to its customers. The 2012 fall/winter collection of Saverio Palatella is released.

2013
To increase the output capacity and productivity of the company whole garment knitting technology is introduced, allowing for seamless knitting of garments.

2014
The 'Gobi Organic' brand is launched using only the natural colors of cashmere white, pale brown, white grey, and brown. No dyes are used in the manufacturing process.

2015
The Amoeba management system, made famous by the Kyocera Corporation in Japan, is being introduced and implemented.

2016
The company announces its goal to become the global leader in 100 percent cashmere coat production. Gobi JSC opens its first branch store in Germany.

2017
A new sewing factory is commissioned increasing Gobi JSC's capacity to 100,000 cashmere coats and jackets per annum. Gobi launches its ecommerce platform at www.gobicashmere.com

MESSAGE FROM THE CHAIRWOMAN OF THE BOARD OF DIRECTORS

Dear shareholders,

Firstly, I would like to extend my warmest regards to you all. 2017 has passed and it is time for us, the board of directors, to report on our past year's performance for decisions made and work done on behalf of our shareholders.

In 2017, the management team and all employees of Gobi JSC, through commitment and effort, further cemented the company's status as the leading domestic manufacturer and dominant market position.

Through our continued commitment to increase productivity, profitability, improvement of management processes, our employee working environment, and a sustainable growth strategy, Gobi JSC's market capitalization reached a record high of MNT 181.4 billion, a growth of 129 percent compared to 2016. In tandem with the value increase of our shares, trading of Gobi JSC's stock increased by 136 percent, greatly improving liquidity. The company's bottom line increased by 8 percent posting a net profit of MNT 17.5 billion.

The board, in its regular meeting, decided to distribute a dividend of MNT 220 per share, a further proof of our sustainable growth and profitable operations.

In 2017 we have focused on exports and growing our presence in the international markets, to do so successfully we have invested in new equipment, product quality improvement, and expanded operations. Our efforts were rewarded with a sales growth of 40 percent, meeting our ambitious growth targets for the year. Noteworthy is a 28 percent worker productivity increase which was followed by an average 10 percent compensation increase for all employees.

I would like to express my deepest gratitude to the management team and all employees who have worked tirelessly and showed tremendous commitment to our values and goals.
Wishing you all the best and good fortunes in the new year.

CHAIRWOMAN OF
THE BOARD OF DIRECTORS
D.GERELMAA

OUR COMPANY

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear shareholders, business partners, and valued customers, I would like to express my deepest gratitude for working and doing business with us.

'A globally renowned brand' was the founding vision when Gobi JSC was born 1981. Since then the company has been a cornerstone of Mongolia's economy and light industry, and a driver of growth, progress, and innovation. Now in our 37th year of operations, we have improved and grown through the efforts and commitment of many generations of employees and management, and to my great satisfaction, having become a nationally renowned brand.

When Gobi JSC was privatized in 2007 its total assets were MNT 27 billion. Today the company stands at MNT 178 billion, with 2017 sales of MNT 124 billion and creating 124 new jobs in the process. Over 1,700 individuals now work for Gobi, with the company contributing over MNT 20 billion in taxes, further proof that Gobi JSC has become nationally significant.

In April of 2017 our new sewing factory started operations, fulfilling our public announcement in June of 2016 to increase manfucturing capacity to 100,000 pieces of 100 percent cashmere coats and jackets. To continue our ambitious international growth strategy we have founded subsidiaries in the People's Republic of China and Belgium. In January 2017 we opened a store in Erlian, February in Brussels, October in Hamburg, and September a store at the Haneda International Airport in Tokyo, Japan. Further, to increase international sales Gobi JSC has opened its online store on www.gobicashmere.com.

All of us will continue to work towards bringing the Gobi and YAMA brands, as well as Mongolian cashmere, to the world. Our goal is to be processing 2,000 tons of cashmere by 2022, or 20 percent of Mongolia's total annual output, and 10 percent of global output.

As the CEO of Gobi JSC I will work to solidify the company's leadership position domestically, and contribute to Mongolia's development and growth. For our customers, business partners, and employees, we will continue our mission to lead by example in the textile and light industry of Mongolia.

To everyone working with us and supporting us I wish you success and all the best.

CEO
TS. BAATARSAIKHAN

GOBI IN
2017

OUR ACHIEVEMENTS

HIGHEST NATIONAL AWARD FOR DEVELOPMENT – STATE 'GEREGE' AWARD

Gobi JSC's development of its sewing plant receives the highest national award for development from his excellency the President of Mongolia.

FIRST PLACE IN 'HEALTH AND SAFETY COMPETITION 2016'

The Ministry of Labor and Social Security together with the center of labor security organized the 'Health and Safety Competition 2016' with Gobi JSC finishing in first place.

TOP 100 ENTERPRISES IN MONGOLIA

At the 2017 Mongolian Chamber of Commerce and Trade's annual awards for the top 100 enterprises Gobi JSC ranked in 18th place overall, and 5th place in terms of number of employees.

TOP TAX REVENUE CONTRIBUTOR

Gobi JSC has been awarded as a top 10 'Exemplary Tax Payer' by the Mongolian Tax Authority in 2016 for complying with tax laws, timely tax payments, and being a model corporate citizen providing contributions to the national budget.

GOBI'S PRINTED SHAWL AWARDED AS 'SPECIAL PRODUCT'

At the 'Leather, wool, and cashmere product fair 2017' organized by the Ministry of Agriculture and Light Industry, Gobi JSC's hand printed shawl received the award as 'Special Product'.

GOBI JSC OFFICIAL PARTNER OF THE MONGOLIAN ASSOCIATION OF TOURISM

Gobi JSC has been recognized by the Mongolian Association of Tourism for its contributions to the development of the tourism sector of Mongolia.

GOBI IN 2017

HIGHLIGHTS

1.13

BRANCH STORE OPENED IN ERLIAN CITY, PRC

Gobi JSC has opened a branch store in Erlian city which is part of the Inner Mongolia Autonomous Region and a major hub of regional growth and development. The store is located in the Minmao Department store. The opening ceremony was attended by the city, border, and customs authorities, as well as representatives of key private sector businesses.

2.01

ECOMMERCE/INTERNET STORE OPENS

As of February 2017 Gobi JSC has started its online stores on TAOBAO and Amazon platforms. Further, the company launched its own eCommerce website at www.gobicashmere.com.

2.16

BRANCH STORE OPENED IN BRUSSELS CITY, BELGIUM

The company has opened a branch store in the kingdom of Belgium. The store is located in the capital city, Brussels. The opening ceremony was attended by honorary guest D. Erdene Ochir who is a valued business partner and major supplier of raw cashmere to Gobi JSC.

3.02

KNITTING FACTORY EXPANSION STARTS ITS OPERATIONS

Gobi JSC's 1st and 3rd knitting factories were expanded by an additional 1,926 square meters area and the new factory space has commenced operations.

4.03

GOBI JSC'S OUTPUT CAPACITY OF CASHMERE COATS AND JACKETS INCREASES TO 100,000 PIECES PER ANNUM

The newly commissioned sewing factory, Gobi JSC's second, increases the company's annual capacity to over 100,000 cashmere coats and jackets.

4.13

ANNUAL SHAREHOLDER'S MEETING TAKES PLACE

On the 13th of April 2017 the annual shareholders meeting took place next to the Gobi JSC factory store, at the Mirage restaurant. A total of 6,688,649 shares cast their votes, which is 88 percent of all Gobi JSC outstanding shares. Attendance was 85.7 percent of all voting shares.

6.14

FIRE OUTBREAK AT FACTORY ROOF

The construction company hired to renovate the factory roof had a fire outbreak on the roof of Gobi Corporation during their operations.

6.24

THE FACTORY STARTED OPERATING ON NORMAL SCHEDULE

The factory started its normal operations on the 24th of June 2017 which is within 10 days after the fire accident as the company's employees worked hard to clean the water that entered the factory during the fire extinguishing process as well as ensuring the safety of the equipment's and finishing the renovation work of the factory.

The Prime Minister of Mongolia visited the factory on the 25th of June 2017 to tour the factory as well as congratulate the staff of Gobi Corporation on overcoming the sudden event in such a short time and starting its normal operations.

7.09

THE OPENING OF A GOBI ORGANIC SECTION AT THE STATE DEPARTMENT STORE

The extension renovation work took place at the Gobi branch store at the State Department store allowing a new section dedicated to Gobi Organic Products. Therefore, this has allowed our end consumers to purchase undyed and unbleached cashmere made from the 4 naturally occurring colors from the city center.

8.01

NEW FACILITIES OF THE QUALITY CONTROL AND ASSURANCE DEPARTMENT COMMISSIONED

The quality control and assurance department's new premises and exports warehouse have opened. The facility has a total footprint of 1,000 square meters and will review the quality of goods intended for export as well as domestic sales. All garments intended for exports will undergo a two step quality control process. Improved quality and a zero tolerance policy is a key step to improve quality and customer satisfaction.

9.15

BRANCH STORE OPENED AT HANEDA INTERNATIONAL AIRPORT IN TOKYO, JAPAN

Over 79 million passengers pass through the Haneda International Airport in Tokyo, Japan. The company has opened a 178 square meter branch store on the 4th floor of terminal 1 of the airport.

10.16

BRANCH STORE OPENED IN HAMBURG, GERMANY

Gobi opens its second branch store in Hamburg (second store in Germany) and increases its overall presence in the international markets.

11.13

RE-DESIGNED BRANCH STORE IN 3RD, 4TH DISTRICT RE-OPENS IN ULAANBAATAR

Gobi's branch store in the 3rd, 4th district in Ulaanbaatar re-opens after a re-design, increase of the store footprint, with a focus on a better shopping experience for our customers. Additionally a dry cleaning service point was opened within the store to offer convenient cleaning and care services to our customers.

FINANCIAL AND OPERATING HIGHLIGHTS

/2016 Performance Indicators/

40%↑
SALES REVENUE
MNT 124.4 billion

8%↑
NET PROFIT
MNT 17.5 billion

38%↑
DOMESTIC SALES
MNT 74.6 billion

44%↑
INTERNATIONAL SALES
MNT 49.8 billion

45%↑
TAXES PAID
MNT 20 billion

40%↑
INVESTMENT
MNT 10.7 billion

129%↑
MARKET CAPITALIZATION
MNT 181.4 billion

8%↑
NUMBER OF EMPLOYEES
124 Employees increased

54%↑
CASHMERE PROCESSED
743 metric tons

9%↑
KNITWEAR PRODUCTION
567 thousand pieces

50%↑
WOVEN PRODUCTION
432 thousand meters

115%↑
SEWN PRODUCTION
57 thousand pieces

EMPLOYEES 1,729

OFFICE STAFF-221

FACTORY WORKERS-1,300

SALES STAFF-208

GENDER RATIO

26% 74%

STAFFS AGE

Down for 18	1%
18-25	24%
26-35	40%
36-45	23%
46-55	11%
Up for 55	1%

EMPLOYEES STAGES-284

68 M level

119 P level

97 F level

EDUCATION LEVEL

UP FOR BACHELOR-710

HIGHSCHOOL-460

PRIMARY HIGHSCHOOL-559

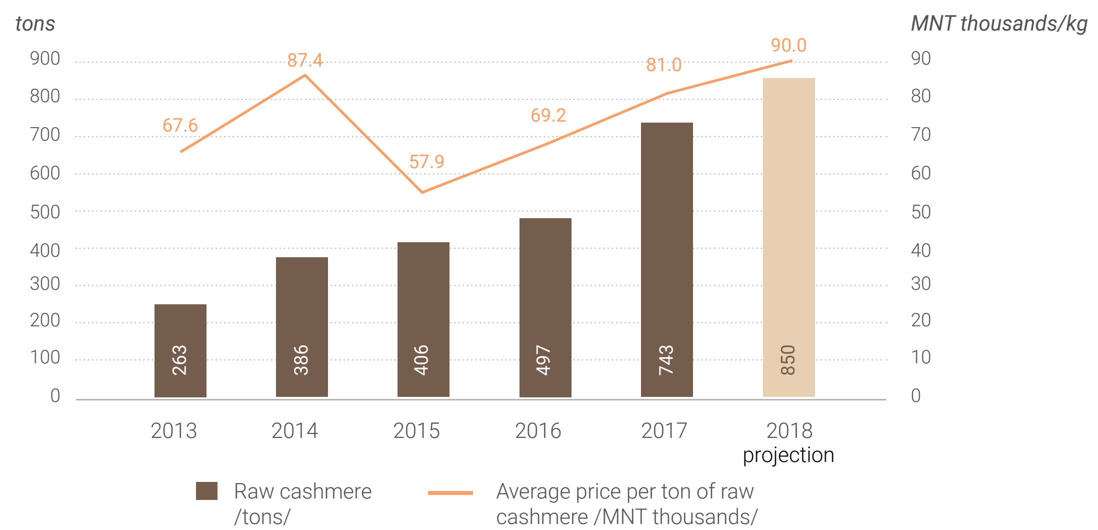
2017 FINANCIAL & OPERATIONS PERFORMANCE AND 2018 PROJECTION

INDICATOR	Unit	2016	2017					2018		
		Actual performance	Planned performance	Actual perfromance	Y-o-y change: Quantity	Y-o-y change: %	Actual perfromance %	Projection	Y-o-y change: Quantity	Y-o-y change: %
SALES REVENUE	**MNT millions**	**88,674**	**110,000**	**124,425**	**35,751**	**40%**	**113%**	**150,445**	**26,020**	**21%**
Domestic sales	MNT millions	54,138	67,100	74,564	20,426	38%	111%	96,545	21,981	29%
International sales	MNT millions	34,535	42,900	49,861	15,326	44%	116%	53,900	4,039	8%
Exports	USD thousands	15,926	18,000	20,424	4,498	28%	113%	22,000	1,576	8%
COST OF GOODS SOLD (COGS)	**MNT millions**	**52,455**	**68,145**	**73,881**	**21,426**	**41%**	**108%**	**93,728**	**19,847**	**27%**
GROSS MARGIN	**MNT millions**	**36,219**	**41,855**	**50,544**	**14,325**	**40%**	**121%**	**56,717**	**56,716**	**12%**
Operating expenses	MNT millions	15,085	18,143	27,102	12,017	80%	149%	32,176	5,074	19%
Pre-tax profits	MNT millions	21,135	23,712	23,442	2,308	11%	99%	24,542	1,100	5%
NET PROFIT	**MNT millions**	**16,139**	**17,998**	**17,503**	**1,364**	**8%**	**97%**	**18,856**	**1,353**	**8%**
Total operating expenses	MNT millions	67,539	86,288	100,983	33,444	50%	117%	125,904	24,921	25%
Cost associated with generating MNT1 tugrik in revenue	MNT	0.76	0.78	0.81	0.05	7%	103%	0.84	0.03	3%
PRODUCTION OUTPUT										
Knitwear production	Thousand pieces	522	540	567	45	9%	105%	800	233	41%
Woven production	Thousand meters	288	426	432	144	50%	101%	480	48	11%
Sewn production	Thousand pieces	26	61	57	31	115%	93%	73	16	29%
Of which: Coats	Thousand pieces	20	60	41	21	105%	68%	69	28	69%
Spinning production	Tons	286	410	352	66	23%	86%	407	55	16%
RAW CASHMERE PROCESSING										
Csahmere	Metric tons	484	800	743	259	54%	93%	850	107	14%
Average price per ton of raw cashmere	MNT thousands	71	68	81	10	14%	119%	90	9	11%
Raw cashmere processing costs	MNT millions	34,488	54,600	60,340	25,852	75%	111%	76,500	16,160	27%
NUMBER OF EMPLOYEE	**People**	**1,605**	**1,778**	**1,729**	**124**	**8%**	**97%**	**1,956**	**227**	**13%**
Revenue per employee	MNT thousands	55,248	61,868	71,964	16,715	30%	116%	76,915	4,951	7%
INVESTMENT	**MNT millions**	**7,611**	**10,250**	**10,657**	**3,046**	**40%**	**104%**	**17,005**	**6,348**	**60%**

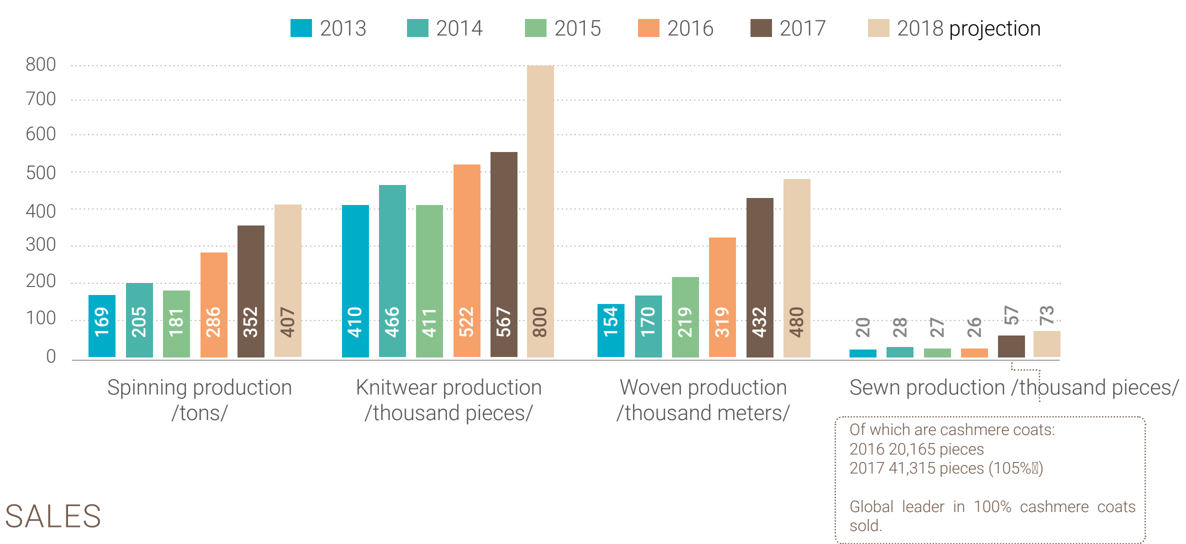
2018 OPERATIONS GOALS AND PERFORMANCE TARGETS

1. Become the global leader in 100 percent cashmere coats.
2. Acquire technical know-how to design and manufacture cashmere jackets which meet global standards in quality and design.
3. Process 850 metric tons of raw cashmere.
4. Commence preparations and work to develop a new primary processing plan for raw cashmere in Tov province, Mongolia.
5. Start operations of a new horizontal yarn processing plant and increase yarn output and yarn quality.
6. Improve our processing expertise for woven fabrics by sending our technical staff and engineers to our business partners in Japan during March and September of 2018. Acquire and research know-how and equipment to produce international level finished woven fabrics, and gradually implement into our own operations.
7. Increase our international sales through our own branch stores and franchises with a key focus on growing sales.
8. Open a new Gobi branch store next to the Parliament House of Mongolia within the UB Galleria store in July 2018. Introduce new and market leading service standards and set a new benchmark for customer service in Mongolia.
9. Reduce inventory and product portfolio clutter by decreasing the total number of catalog items and focus on Gobi's own collection with an optimal number of designs and products.
10. To continue sustainably develop the cashmere industry work together with related ministries, agencies, domestic and international associations and openly work on new projects.
11. Special focus is given on the following products to bring them to a new level of design and production quality.
    1. Coats and jackets
    2. Thin and lightweight knitwear
    3. Regular knitwear
    4. Scarves and shawl
    5. Blankets
    6. Socks

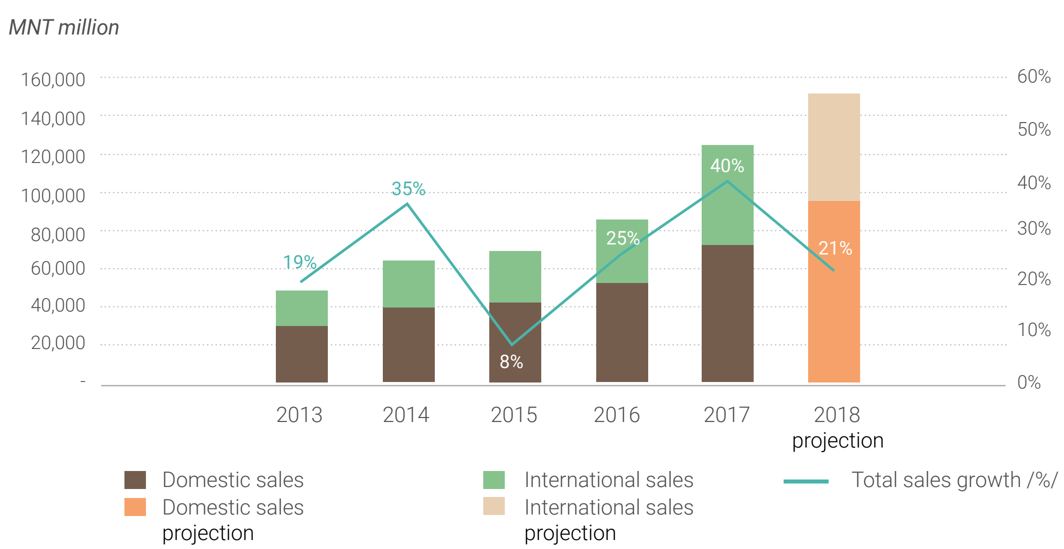
RAW CASHMERE PROCESSED



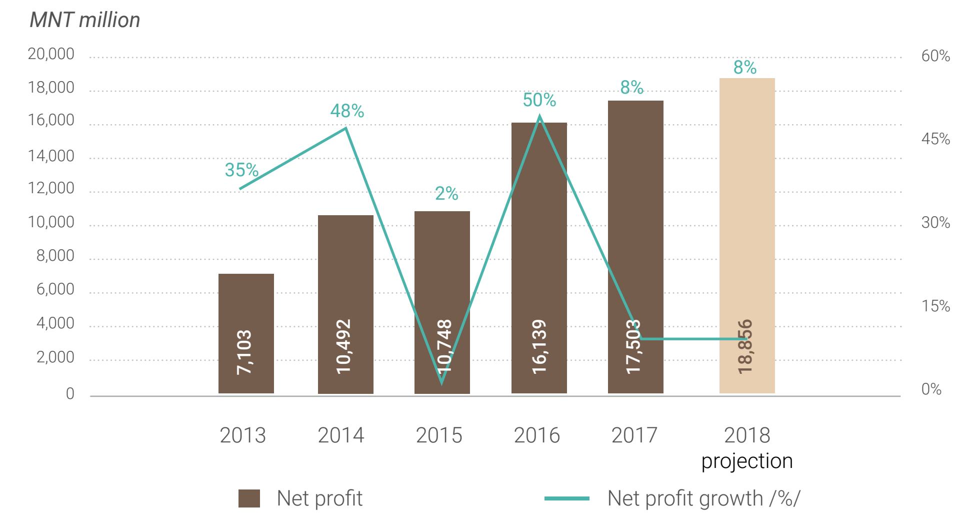
PRODUCTION OUTPUT



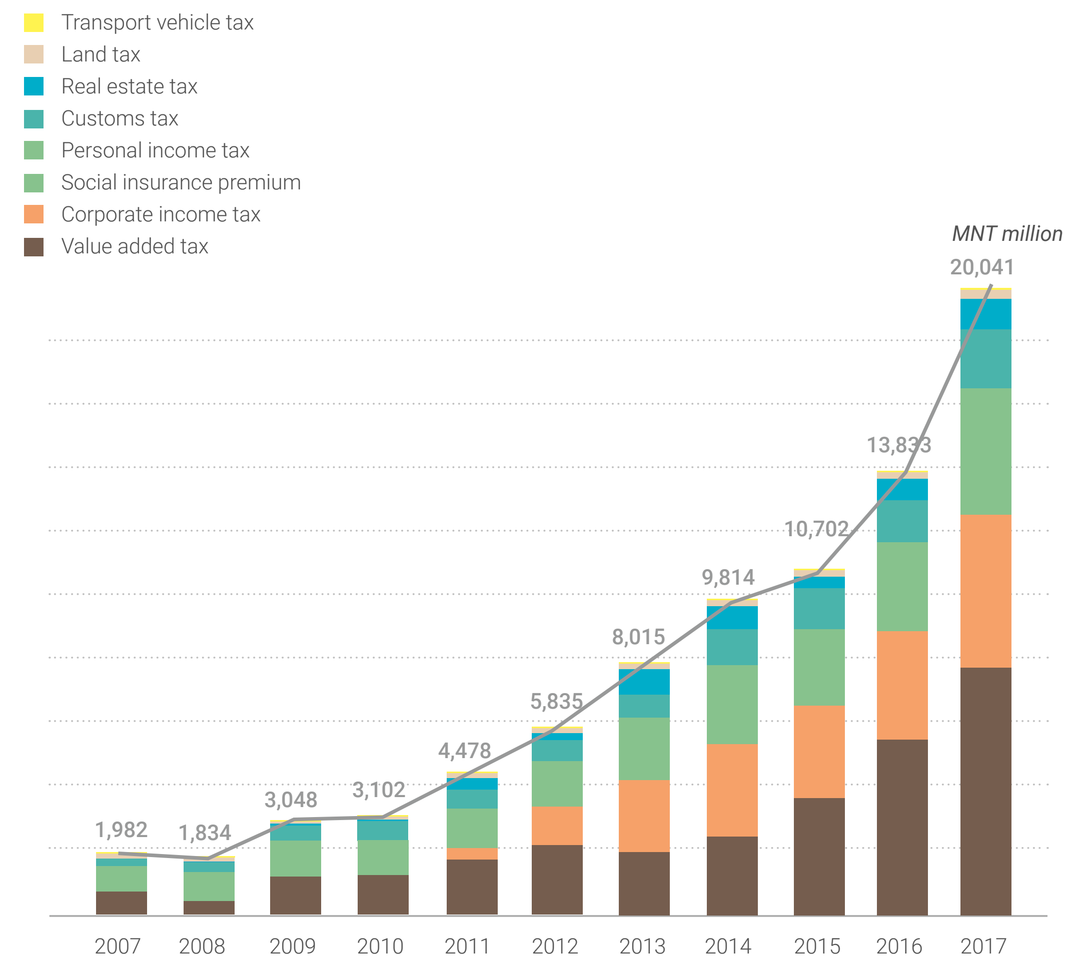
SALES



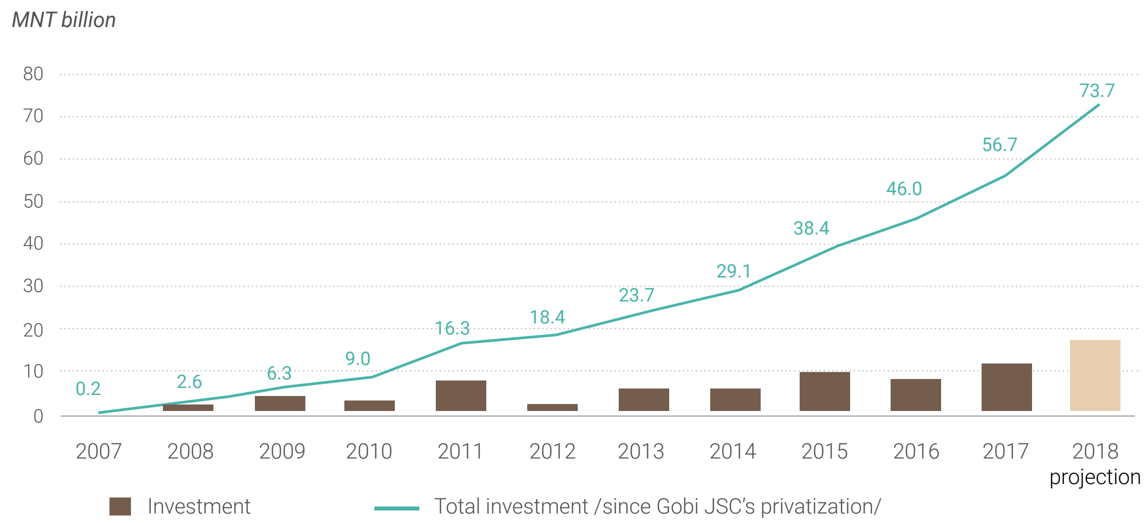
NET PROFIT



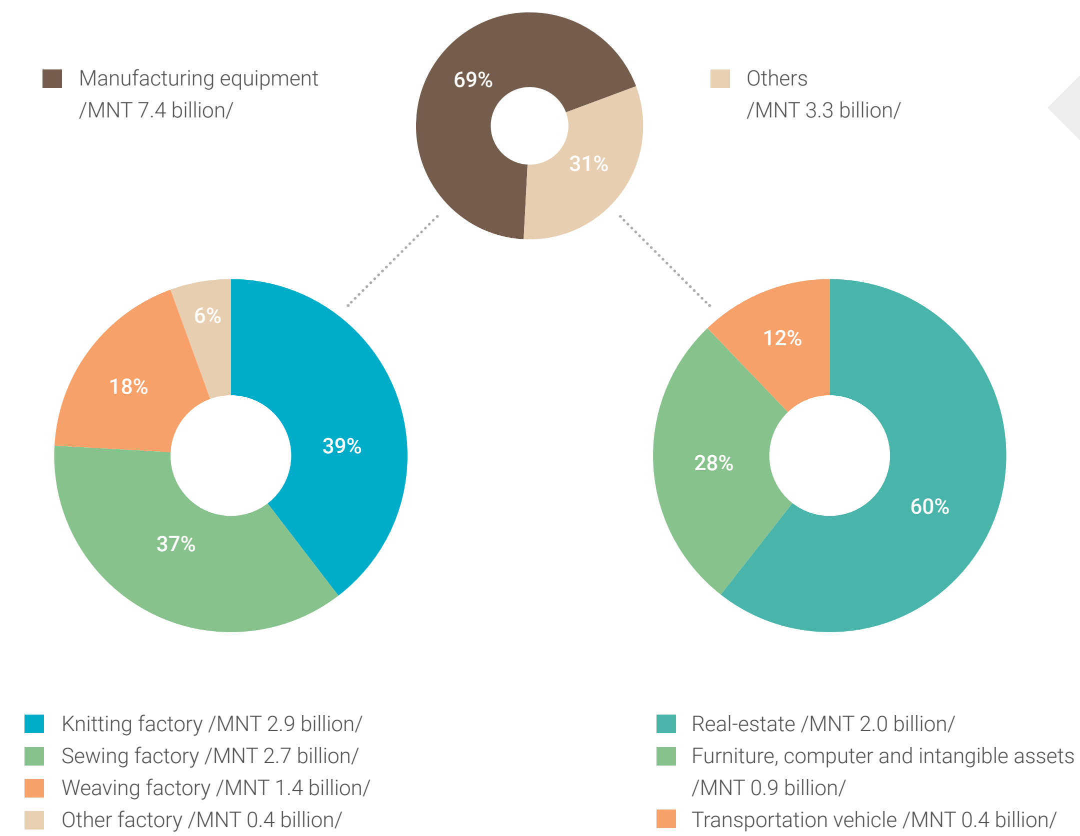
TAXES PAID



INVESTMENT



Since Gobi JSC's privatization in 2007 the company has invested a total of MNT 56.7 billion, of which MNT 10.7 billion was invested in 2017 with 69 percent (or MNT 7.4 billion) spent on manufacturing capacity and equipment, and 31 percent (or MNT 3.3 billion) on real-estate, building expansion, branch store renovation and others.



GOBI IN 2017

NEW TECHNOLOGY AND DEVELOPMENT

PRIMARY PROCESSING FACTORY

New combing equipment was introduced and tested in the combing step of the raw cashmere process. Procured from a Chinese manufacturer the new equipment uses four times less electricity, two times less space, and provides a higher combing yield, all which which combined will significantly reduce our processing costs and improve productivity. The successful trial has given us the confidence to go ahead and order additional machines in 2018.

SPINNING FACTORY

We have changed our dyeing machinery in our processing plant adding new Hisaka brand 50 kg and 100 kg dyeing machines. We expect reduced damage to our cashmere in the dyeing process, more accurate color dyes, and productivity and output increases.

In our yarn processing plant we ran a trial with horizontal yarning technology. The new technology and process should yield stronger yarn, decreased pilling, and result in higher quality finished textiles.

WEAVING FACTORY

We have started integrating Dornier Jacquard branded weaving equipment in our primary weaving process, resulting in an output increase of 17 percent, and manufacturing output growth of 58 percent. The new plant, apart from output growth, allows us to manufacture lighter blankets and shawls with Jacquard textures.

KNITTING FACTORY

LONATI branded knitting equipment has been introduced enabling us to knit socks ourselves.

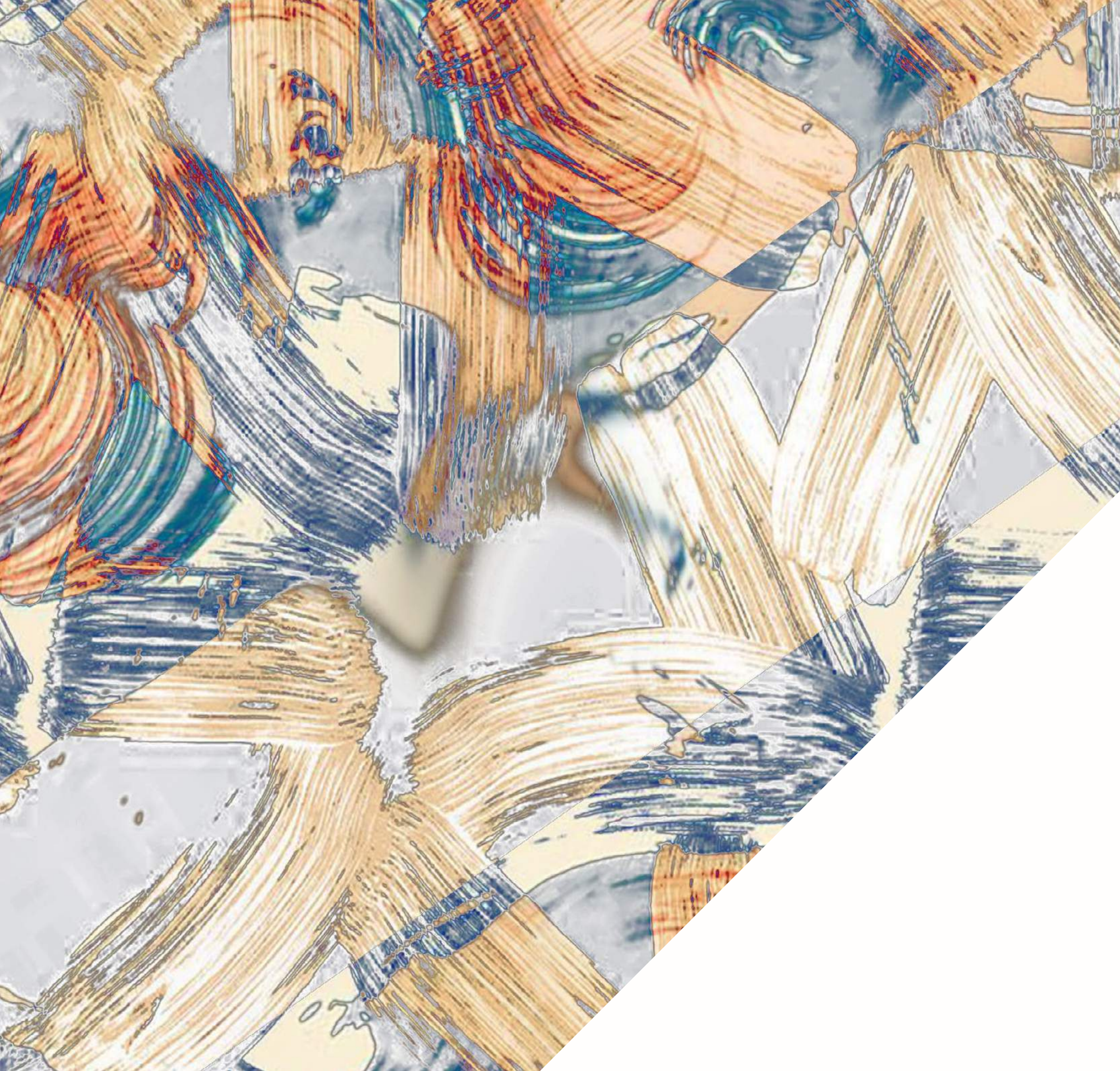
Narrow gauge knitting equipment has been introduced to knitting department number 3, allowing us to improve the quality and design of certain knitwear.

STOLL branded computer controlled knitting equipment has been added to our plant allowing us to produce new knitwear garment types.

SEWING FACTORY

Prior to adding automated sewing equipment, buttons, collars, and finished two-sided coats were sewn manually. Now these three steps are fully automated increasing our productivity by 57 percent.

Further, new software and processes were tested to replace manual sewing processes in the design stages of sewn products. We are planning to gradually implement this innovation in 2018.



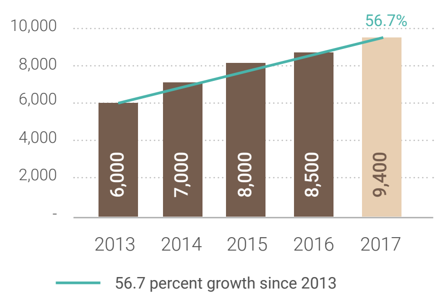
OUR
OPERATIONS

CASHMERE SECTOR

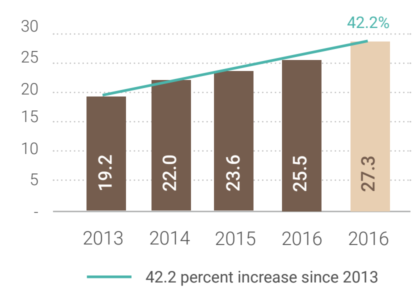
CASHMERE SECTOR OVERVIEW

In 2017 Mongolia supplied 9,400 tons of raw cashmere, or 45 percent of global output, a 10 percent increase compared to 2016. A total of 27.3 million goats were officially registered in Mongolia, a 6.9 percent annual increase.

Raw cashmere output, last 5 years
/tons/



Number of goats, last 5 years
/millions/



The consistent and sustainable development of Mongolia's raw cashmere supply has benefited the country. However, due to challenging economic conditions and unstable government policies, domestic processors and manufacturers suffered from lack of working capital to purchase sufficient raw cashmere to sustain year long operations. On top of lack of capital, a high number foreign buyers, furnished with ample low cost capital, have been out-bidding domestic buyers for the highest quality raw cashmere. The traditionally cash based transaction between raw cashmere traders and foreign buyers has allowed them to avoid commercial taxes and benefit from artificially low cost of raw materials. Unfortunately over 80 percent of Mongolia's raw cashmere is being exported out of country with little to no value add, costing the nation valuable tax revenues and employment opportunities.

The above mentioned factors lead to a lack of raw cashmere for domestic manufacturers, allowing them to only use 40-60 percent of their manufacturing capacity, causing poor productivity, low output, and negatively affecting employment, social security, and a general trend of low number of skilled workers choosing to work within the cashmere sector of Mongolia.

SECTOR SUPPORTING ACTIONS

Lead by the Ministry of Agriculture and Light Industry of Mongolia, several programs and policies are taking shape in 2018. The cashmere sector is of strategic importance to the economy of Mongolia, and the plan is to declare cashmere a strategic resource with subsequent reforms to the legal framework regulating the industry. These changes should positively improve the attractiveness for investors to investing in the cashmere industry, create a level playing field between domestic and international cashmere manufacturers, and most importantly allow for higher capacity utilization, productivity, profitability and ultimately increase the value of Mongolia's exports. Together with stakeholders, competitors, and associations, the Mongolian government is the process of approving the 'Cashmere' program to address the above mentioned changes required in policy.

Mongolia supplies 45% of the total world raw cashmere.

The 'Cashmere' government program is intended to improve the competitiveness of domestic cashmere manufacturers, ultimately resulting in 60 percent of all raw cashmere to be processed (and therefore value added), and creating a framework where the majority of cashmere is being exported as an environmentally sustainable, employment, and tax revenue generating finished product. Key targeted goals are:

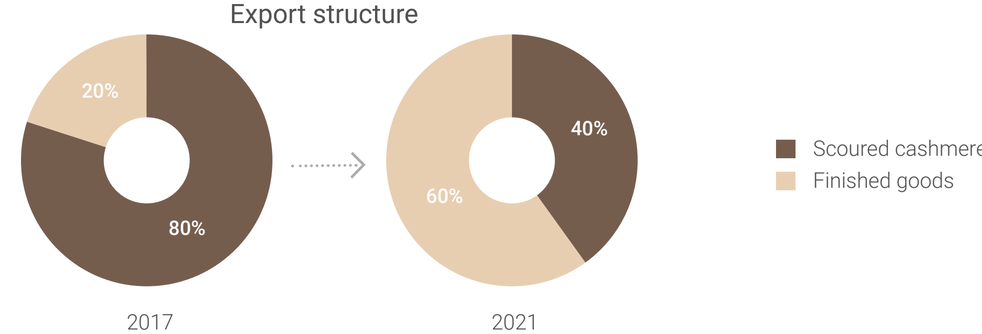
- Increase exports of finished goods through changes in policies, laws, and creating a long-term sustainable tax and investment environment for the Mongolian cashmere industry.
- Improving the breed of goats and subsequently the raw cashmere quality.
- Increasing the overall amount of raw cashmere being processed and value-added domestically, increasing exports of final products with high added value.
- Promote the use and procurement of environmentally sustainable equipment and processing technology, and development of products that meet market demand whilst protecting the environment.
- Develop the depth and breadth of skilled labor, reduce employee turnover and address social issues that promote employee satisfaction whilst improving productivity.

CASHMERE SECTOR FUTURE OUTLOOK

With the 'Cashmere' program being implemented by the government of Mongolia we project the following positive changes to take place.

Indicators	Metric	2017	2021	Growth /%/	
				Quantity	%
Scoured cashmere /Intended for domestic manufacturers/	Metric tons	1,170	3,950	2,780	238%
Scoured cashmere /Intended for export/	Metric tons	5,410	2,630	-2,780	-51.4%
Cashmere yarn output	Metric tons	450	2,000	1,550	344%
Knitwear output	Thousand pieces	916	2,200	1,284	140%
Woven products output	Thousand meters	500	1,500	1,000	200%
Finished goods output	MNT billions	203	1,000	797	392%
Finished goods export	MNT billions	79	398	319	400%
Sector employment (full-time)	People	5,582	9,110	3,528	63%

Export structure

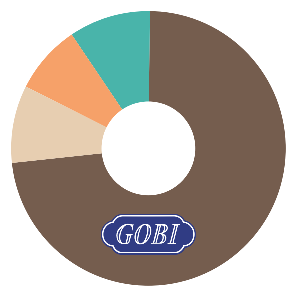


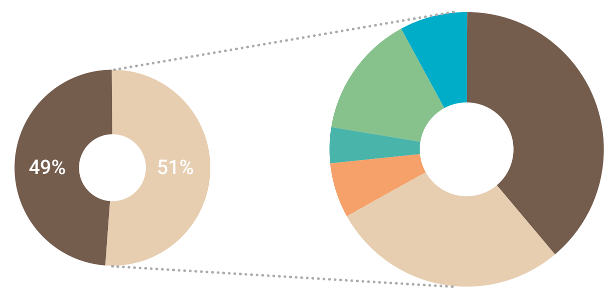
DOMESTIC MARKET

38%

In 2017 the company had domestic sales of MNT 74.6 billion, an increase of 38 percent compared to the previous year.

Domestic market share





49 percent of domestic sales are attributable to residents of Mongolia, the remaining 51 percent are sales to tourists and visitors to Mongolia. 67 percent of tourists and visitors come from either South Korea or the People's Republic of China.

17%

TOURISTS VISITING MONGOLIA
471 thousand individuals

35%

TOURSITS WHO HAVE FREQUENTED GOBI BRANCH STORES
82 thousand individuals

45%

SALES VOLUME GROWTH ATTRIBUTABLE TO TOURSTIS
MNT 38 billion

In 2017 the number of tourists visiting Mongolia has increased by 17 percent to a total of 471 thousand individuals. The number of visitors who have frequented and purchased goods from Gobi branch stores has increased by 35 percent. In line with the double digit increase, the total purchase amount attributable to tourists has increased by 45 percent, proof that tourist numbers strongly correlate with our company's sales performance. Going forward Gobi JSC will contribute and focus on developing and assisting the tourism sector of Mongolia, a main pillar of sales growth for the company. Gobi JSC has formulated sales strategies and actions to increase the overall number of tourists visiting Mongolia, and ultimately visitors frequenting our stores.

IMPROVED AND EXPANDED BRANCH STORES

State Department Store
Organic section

Factory store
Home section

III, IV khoroolol store

In July 2017 the company has opened a YAMA branch store within the Shangri-La shopping mall, shortly following the opening the store commenced selling GOBI branded merchandise as well, leading to a doubling of sales of the branch store.

Initially YAMA branded merchandise was exclusively sold through the Shangri-La Mall branch, with the introduction of the YAMA clothing line to all our stores, sales of our premium brand increased by six times within a month.

TOP ACHIEVEMENTS OF 2017

MNT **586.3** million of sales within 1 day.
/26th of August/

249 coats sold on a single day.
/17th of September/

BLACK FRIDAY

MNT **1.4** billion of sales over the Black Friday sales event.
/24th to 26th of November/

OUR PLANS FOR 2018

Gobi JSC's mission for 2018 is to be country leading in terms of quality of service, qualification, and efficient teamwork. Our company shall be a benchmark for Mongolia's overall service industry.

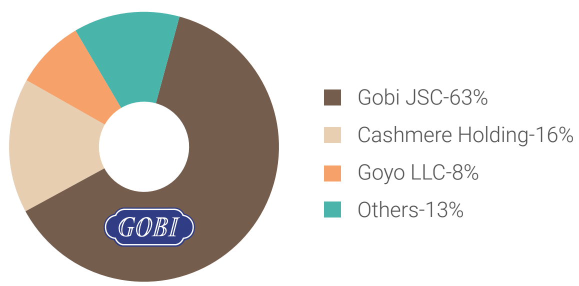
Next to the parliament palace our company will open a 1,745 square meter store over 2 floors. The opening date is targeted to be in July 2018, adding a sales location in high value areas of the city and introducing market leading standards of service and product quality in Ulaanbaatar.

INTERNATIONAL MARKET

44%

In 2017, international sales increased by MNT 49.8 billion, a growth of 44 percent compared to last year.

International market share



NEWLY OPENED STORES

Gobi JSC's products are delivered to 35 different countries to over 150 wholesale customers around the globe. In 2017 the company is present in 34 cities through 50 franchises and 5 own branch stores.

In 2022 we target to have over 100 international stores consisting of 80 franchises and 20 branch stores domestically.

E-COMMERCE & ONLINE RETAIL

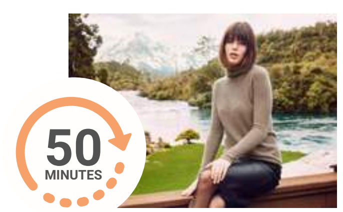
As of February 2017 Gobi JSC has opened its online sales platforms on Taobao and Amazon and commenced displaying our garments. Additionally our own eCommerce platform was launched on **www.gobicashmere.com**, together with the launch of our website we introduced express shipping solutions for our customers to receive their goods swiftly.

BERLIN BASED EVENT TO INCREASE OUR COMPANY'S PRODUCTIVITY

Between the 18th and 23rd of October the company has held a customer dedicated event in Berlin, Germany, displaying new designs and products of Gobi and YAMA summer/fall collections. The goal of the event was to directly receive feedback and orders from international customers, developing and improving our international sales and ultimately increasing the overall sales and efficiency of our company.

INTERESTING FACTS OF 2017

South Korea based CJO home shopping successfully promoted and sold Gobi brand products in 2017.



6,000 pieces of decorated knitted sweaters sold out within 50 minutes. /27th of September/

800 pieces of cashmere coats sold out within 7 minutes. /27th of September/

1,000 coats sold out within just 23 minutes. /14th of October/

OUR PLANS FOR 2018

In the coming year customers will be able to design and order their own unique coat through our 'coat customization option', introducing elements from our made-to-measure services to all of our retail customers.

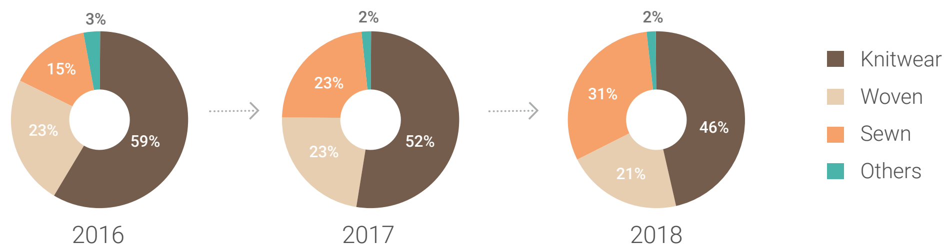
Customers of our own branded stores and franchises will be able to order their own unique coats.

PRODUCTS

In 2017 we have launched a total of 13 collections, a new milestone for our company, illustrating the growth in internal capacity, ability to create innovative designs, and provide consistently high quality products.

Going forward we are confident that foreign wholesale buyers will choose Gobi's own designs instead of their own, thus reducing the overall dependence of the company from ODM/OEM customers, instead producing Gobi's own designs and collections driving shareholder value through economies of scale, less switching between production processes, eliminating duplicate efforts, and boosting productivity and output.

PRODUCT VARIETY

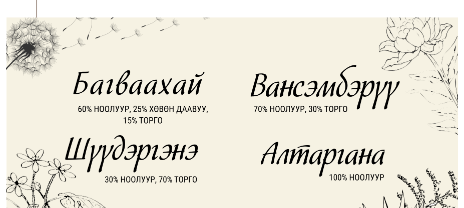


In the future Gobi JSC plans to grow its percentage of sewn products and continue our strategy of years past. Knitwear products are planned to occupy a smaller percentage of total sales going forward. Further, we will specifically focus on coats and jackets as key growth drivers through appealing designs, technological and know-how development, and overall product quality, resulting in finished designs and products sought after by our customers.

PRODUCT DEVELOPMENT AND TECHNOLOGICAL ADVANCEMENT TARGETS

Cooperation with Hungary based 'Titem' corporation we plan to acquire the know-how, designing, and processing skills to produce jackets that meet international standards.

The advancement in cutting the outlines of a cashmere coat together if the size is the same has allowed us to increase our material efficiency by 10%. Furthermore, the introduction of our children's cashmere coats and pouches made out of the leftovers of cashmere materials after the cutting section has been highly demanded by our end consumers and also allows us to use our leftover materials.



New raw material mixes resulting in yarn colors previously not named have been given names by medicinal plants and herbs only native to Mongolia.

Our sewn products and knitwear will gradually be adjusted for international sizes for Asian and European sizes, improving the fit of our products abroad.

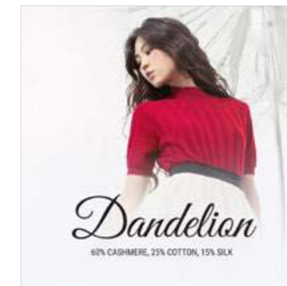
PRODUCTION AND SERVICES INNOVATION

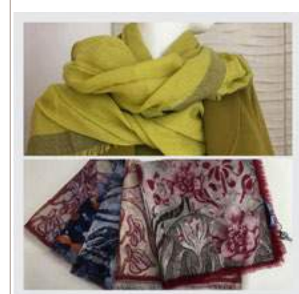
100 percent cashmere and cashmere/silk composite male and female jackets

Two sided blankets with Jacquard weave designs

Oversized male and female coats

New 60 percent cashmere, 25 percent cotton, and 15 percent silk composite 'Dandelion' design collection



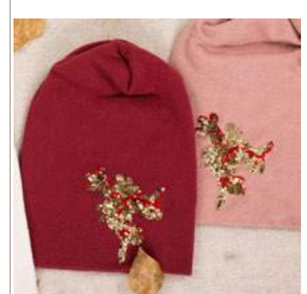


New thin shawl designs suitable for summer seasons with sizes 50x50 cm and 115x115 cm

Men's reversible coats

Coats with 3 color seams and collar

Two sided shawl



Hat with sequins

Winter cashmere coats with an additional insulating layer

BRANDS

GOBI BLUE LABEL – recognized globally and uniquely Mongolian brand.

Gobi Organic Cashmere exclusively using the natural colors of MONGOLIAN CASHMERE. Designs and colors in white, yellow-white, white-grey, and brown.

Only the highest quality of raw materials are used to create garments carrying the brand name 'YAMA'.

In Mongolian 'YAMA' stands for goat and is a vital part of the five animals in Mongolian nomadic culture. In Japanese 'YAMA' stands for mountain summit, articulating our vision for the Gobi brand to introduce a new standard of luxurious cashmere garments under a new brand.

The GOBI KIDS brand creates fashionable garments for kids which are soft and provide maximum comfort and freedom for play.

COLLECTIONS

LUNAR NEW YEAR 2017

GOBI KIDS 2017

GOBI SPRING/SUMMER 2017

3D SHAWL 2017

OUR OPERATIONS

YAMA SPRING/SUMMER 2017

NAADAM 2017

GOBI FALL/WINTER 2017-18

YAMA FALL/WINTER 2017-18

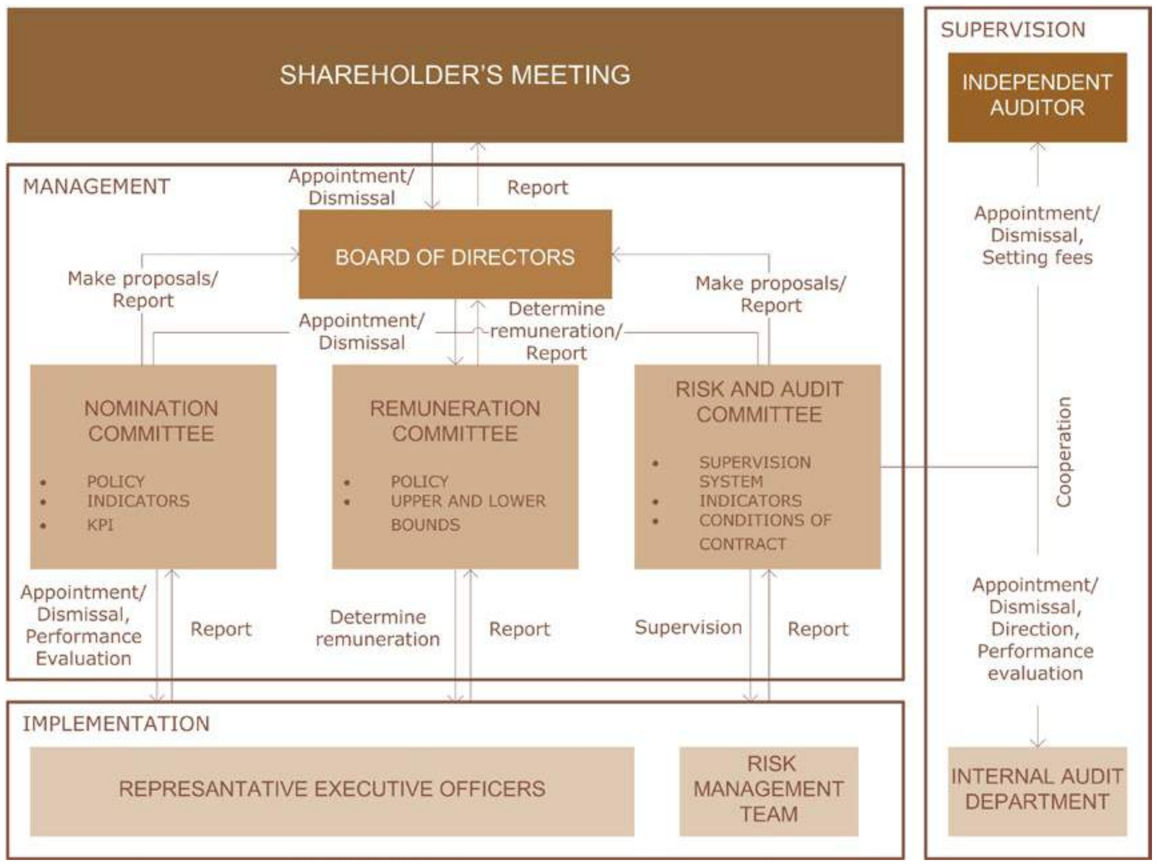
OUR OPERATIONS

OUR BUSINESS PARTNERS

CORPORATE
GOVERNANCE

GOVERNANCE STRUCTURE & OPERATIONS

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.



Our company adheres to the corporate laws and governance codex of Mongolia. Further, we continually learn and implement governance best practices from international corporations and institutions, aiming to be a domestic leader in terms of corporate governance. Together with the Mongolian Stock Exchange and National Governance Advisory board Gobi JSC is implementing and improving on the 'Corporate Governance Codex'.

In 2017 the company has achieved the following governance milestones:

- New charter created for the nomination committee
- Approved a new charter for the remuneration committee
- Job descriptions and responsibilities have been reviewed and improved for Governing Persons of a Company
- Key performance indicators and evaluation methodology has been reviewed and improved for Governing Persons of a Company
- Board of directors has self-evaluated its performance
- The company's own governance review and evaluation process has been improved

GOVERNANCE ASSESSMENT AND EVALUATION

Gobi JSC self-assessed and scored the company's governance by using the 'Corporate governance codex implementation and evaluation survey' was issued by the Mongolian Stock Exchange. On the regular board meeting on the 13th of December 2017 the board of directors has rated our governance and officially released its score.

GOBI JSC'S SELF-ASSESSED CONSOLIDATED GOVERNANCE SCORE

№	Basic principles	Number of questions	Target results	Actual results	Result /%/
A	Protection of shareholder rights and subsequent effectiveness of the shareholder meeting	20	20.0%	17.5%	87.5%
B	Equality of rights for shareholders	10	10.0%	7.5%	75.0%
C	Stakeholder participation	10	10.0%	8.0%	80.0%
D	Transparency	20	20.0%	16.5%	82.5%
E	Board of director composition	30	30.0%	24.5%	81.7%
F	Management activities	10	10.0%	7.5%	75.0%
	Total	100	100.0%	**81.5%**	

Based on the survey Gobi JSC's board of directors has given itself a consolidated score of 81.5 percent. Indicators which received a score of above 80 percent.

- Protection of shareholder rights and the annual shareholder meeting
- Stakeholder participation
- Transparency
- Board of directors related tasks and work

Indicators which scored below 80 percent:

- Equal rights for shareholders
- Management activities

FUTURE ACTIONS TO BE TAKEN TO IMPROVE CORPORATE GOVERNANCE

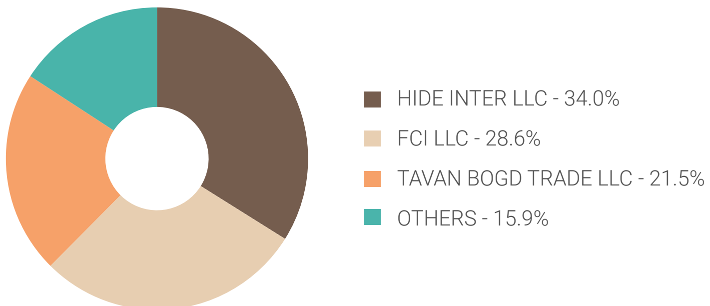
Gobi JSC is a listed company on the Mongolian Stock Exchange and strives to lead by example with sector and country leading corporate governance. To achieve our ambitious goals many tasks remain to be done in the future. Going forward we will improve transparency and the availability of information to all stakeholders, further promote equal rights of shareholders, and better the overall rights for all shareholders.

The board of directors of Gobi JSC has started developing the 'Gobi JSC governance handbook', this document will contain clear steps, goals, and areas of improvement such as:
Dividend policy

- Shareholders meeting policy
- Board of directors operations policy
- Information dissemination policy
- Management and operations policy
- Stakeholder protection policy
- Company code of ethics
- Board of directors code of ethics
- Set criteria and succession policy for Governing Persons of a Company

SHAREHOLDERS

SHAREHOLDERS STRUCTURE



CHANGES TO THE OWNERSHIP OF SIGNIFICANT SHAREHOLDERS

Within the reporting period Tavan Bogd Trade LLC and Ulemj Ikh LLC have merged resulting in Tavan Bogd Trade LLC owning 1,678,625 Gobi JSC shares representing 21.5 percent of all outstanding shares.

SIGNIFICANT SHAREHOLDERS

Shareholder	Shares owned (thousands)	Percentage of all shares
HIDE INTER LLC	2,652.4	34.0%
FCI LLC	2,230.0	28.6%
TAVAN BOGD TRADE LLC	1,678.6	21.5%

TOTAL SHARES OUTSTANDING

7,801,125

TOTAL NUMBER OF SHAREHOLDERS

16,170

/as of 2017.12.31/

Hide Inter LLC and FCI LLC operations focus on investments.

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, and support and investment in its subsidiary company operations.

SHAREHOLDERS MEETING

Gobi JSC's shareholders rights are executed mainly through the shareholders meeting which represents the highest authority for the company. The shareholders meeting is regulated through the Mongolian corporate law in section 62 paragraph 1, governing the rights of shareholders, the board of directors, and the decision making process within the company according to the company charter.

REGULAR SHAREHOLDERS MEETING

Gobi JSC's regular annual shareholders meeting took place on the 13th of April 2017. A total of 6,688,649 million shares, or 90 shareholders, with cast their votes representing a total of 85.74 percent of voting shares.

1. The board of directors presented the performance of the company for 2016, with 99.97 percent of votes confirming the board of directors assessment that the company has fully achieved its targets.

2. The board of directors reported dividends distributed in 2015, and the dividend for 2016 financial performance.

3. The board of directors appointed its members through the cumulative voting process with independent members consisting of M. Bayar, D. Gerelmaa, B. Nandin-Erdene, T. Odmaa, and Takeshi Kambe. With regular board members consisting of Ts. Baatarsaikhan, Hideo Sawada, D. Hulan, and J. Oyunchimeg being appointed for 3 years each.

BOARD OF DIRECTORS

Gobi JSC's board of directors duties are to represent, protect the rights of shareholders, and audit, give strategic direction, and overview operations of the company at times other than the annual shareholders meeting. The board is responsible for the company's strategy and key decision making, approval of the business plan, and monthly review of the company's management and operational performance. Further, the board governs the audit and risk committee, instituted the nomination and compensation committee, and ensures that corporate governance standards are met through the internal audit and risk department.

CHANGES TO THE BOARD OF DIRECTORS

In accordance to the request by T. Odmaa to be excused from her position as an independent member of the board the board of directors accepted her request and at the regular meeting on the 21st of September 2017. According to paragraph 77.5 of the Mongolian corporate law, a new independent board member shall be nominated and appointed only through a shareholders meeting. For the period until the next annual shareholders meeting in 2018 Z.Shagdarsuren was appointed as an interim independent member of the board on the 13th of December 2017.

COMMITTEES GOVERNED BY THE BOARD OF DIRECTORS

Risk and audit committee

Governed by the board of directors is the risk and audit committee in charge of overviewing accounting, audit operations, accuracy and truthfulness of financial reports, internal audit, compliance with accounting practices and standards. The risk committee reviews risk management practices and strategy, compliance and implementation of risk management plans, and quality of risk assessments and reports from independent risk auditors.

Nomination committee

Governed by the board of directors the nomination committee chooses and nominates the members of board of directors, the chief executive officer, and other managerial positions. The committee develops and ratifies job descriptions, responsibilities, roles, and reviews the performance of key management team members.

Remuneration committee

The remuneration committee's purpose is to outline and develop formulas which govern the compensation and incentives/bonuses for members of the board, chief executive officer, and top management members. Further, the committee approves salary levels, incentives, bonuses, and guidelines for all employment levels and reviewing whether all guidelines meet legal standards.

In 2017 the board of directors met 8 times, the risk and audit committee 5 times, nomination committee 2 times, and the remuneration committee 2 times, discussing and deciding 84 issues, issuing 38 resolutions, deciding on the company's strategy, reviewing and giving direction on operations.

CORPORATE GOVERNANCE

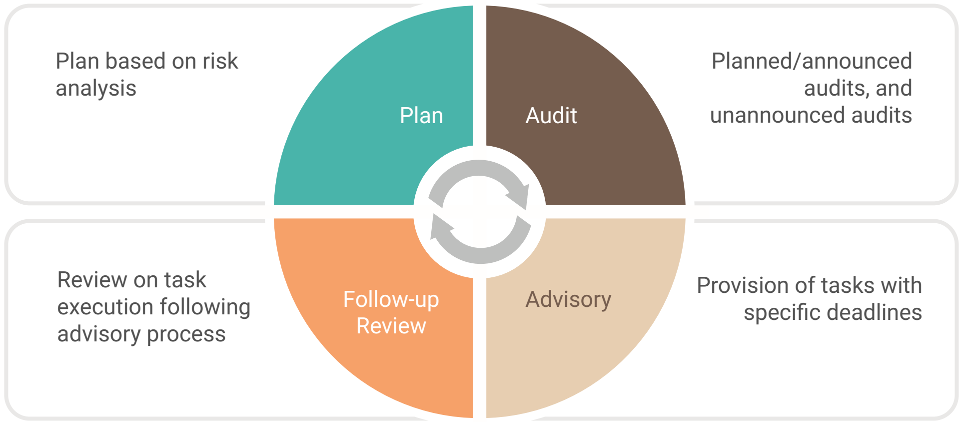
INTERNAL AUDIT DEPARTMENT

Internal auditing department's duty is to represent the interests of shareholders, reviewing and auditing company operations and potential risks as an independent department and report its findings on a quarterly basis to the board of directors.

The internal audit department consists of two sub departments which are the operations audit, and finance and accounting audit department. Both operate sub-departments work closely together according to international internal audit standards. The key focus is to report and solve operations and accounting issues, and provide guidance and solutions to minimize operations and accounting risks in close cooperation with the management team.

In 2017 the internal audit department with a focus on risk management has conducted non-regular audits on company strategy, projections and plans, legal guidelines, internal policy, technological policies, operating standards and overall company operations. The target was to review whether the company is using its resources efficiently. Subsequently the internal auditing department submitted 181 suggestions to improve operations.

Internal auditing process



MANAGEMENT TEAM AND SHAREHOLDERS MEETING EXPENSES

/MNT thousands/

EXPENSE TYPE	2017	2016	2015
Remuneration of Board of directors	109,614	82,783	102,455
Remuneration of Key Management	1,033,005	724,449	656,903
Shareholders meeting expenses	13,407	11,138	16,328

SHAREHOLDINGS OF GOVERNING PERSONS OF A COMPANY

<table>
<tr><th rowspan="2">GOVERNING PERSONS NAME</th><th colspan="2">SHARES OWNED OF GOBI JSC</th></tr>
<tr><th>DIRECTLY</th><th>INDIRECTLY THROUGH RELATED ENTITIES</th></tr>
<tr><td>KHULAN.D</td><td>122,473 SHARES (1.6%)</td><td rowspan="2">FCI LLC 28.6%
TAVAN BOGD TRADE LLC 21.5%</td></tr>
<tr><td>BAATARSAIKHAN.Ts</td><td>500 SHARES (0.0%)</td></tr>
<tr><td>TOTAL</td><td colspan="2">51.7%</td></tr>
</table>

MEMBERS OF THE BOARD OF DIRECTORS

INDEPENDENT BOARD MEMBERS

GERELMAA
Damba

Chairwoman of the board, independent member of the board of directors
/Head of the remuneration committee, member of the nomination committee/

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

BAYAR
Myagmar

Independent member of the board of directors
/Head of nomination committee/

Associate professor of Textile Science Department, School of Industrial Technology, Mongolian University of Science & Technology

NANDIN-ERDENE
Banzragch

Independent member of the board of directors
/Head of the risk and audit committee/

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

KAMBE
Takeshi

Independent member of the board of directors
/Member of the remuneration committee/

Manager of Asahi Mutual Life Insurance Company

SHAGDARSUREN
Zuunai

Independent member of the board of directors
/Member of the risk and audit committee/

Lawyer and legal advisor

BOARD MEMBERS

BAATARSAIKHAN
Tsagaach

Member of the board of directors
/Member of the nomination committee/

President of the Tavan Bogd Group, CEO of the Gobi JSC

KHULAN
Dashdavaa

Member of the board of directors
/Member of the risk and audit committee/

Executive Vice President of the Tavan Bogd Group

SAWADA
Hideo

Member of the board of directors

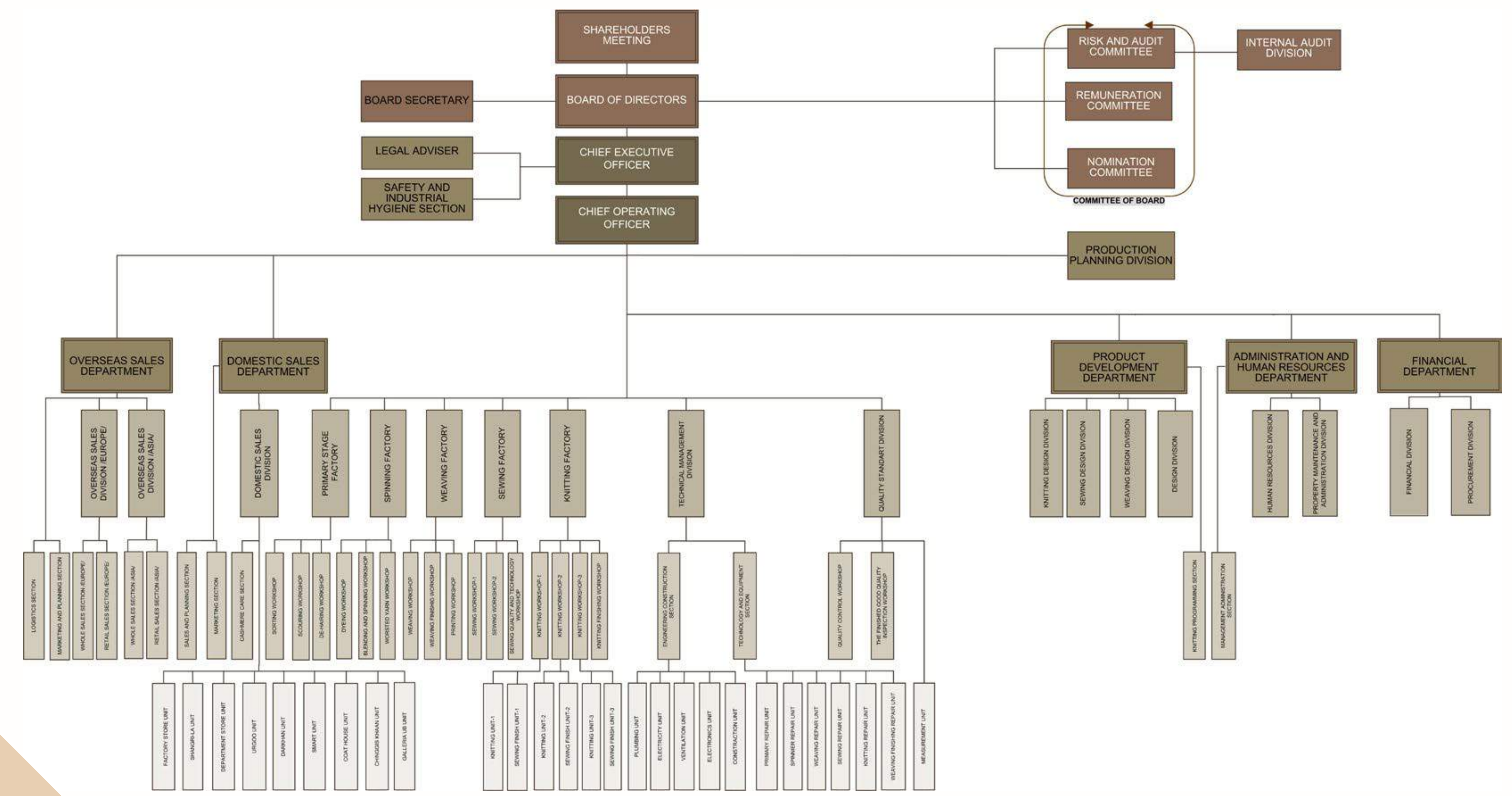
President of the H.I.S. Corporation

OYUNCHIMEG
Javzandolgor

Member of the board of directors
/Member of the remuneration committee/

Head of Marketing department, Tavan Bogd Group

COMPANY ORGANIZATIONAL STRUCTURE



KEY CHANGES TO THE COMPANY ORGANIZATIONAL CHART AND INTERNAL STRUCTURE

1. Key changes in Domestic sales division
   - The deputy director for domestic sales position has been removed with responsibilities being covered by the domestic sales director.
   - Sales planning division has been newly created.
   - Dry cleaning and textile repair division has been transferred to the domestic sales division.
2. Key changes to the International sales division
   - International sales division has been
   - sub-divided to Asia and Europe.
   - Transportation and logistics division has been newly created.
   - Wholesale trading divisions for Asia and European regions has been newly created.
   - Retail and small quantity trading divisions for Asia and Europe regions has been newly created.
3. Cashmere printing division has been transferred from the knitwear division to the woven cashmere division.
4. Sewn garment division has been transferred from within the sewn garment factory to the product development department as the sewn product department.
5. Legal advisor and compliance department has been transferred from within the HR department to the CEO's direct management.

SUBSIDIARY INFORMATION

№	Subsidiary name	Shares owned	Year founded	Location	Operations
1	Gobi Cashmere Europe LLC	100 percent Gobi JSC	2016.11.07	Schoenefeld city, Germany	Trading and services
2	Gobi Cashmere LLC (Inner Mongolia)	100 percent Gobi JSC	2016.12.19	Erlian city, PRC	Trading and services
3	Gobi Cashmere LLC	100 percent Gobi JSC	2017.01.17	Brussels city, Belgium	Trading and services

TOP MANAGEMENT AND KEY PERSONNEL

BAATARSAIKHAN TSAGAACH
CEO

Graduated from the Polytechnic University of Japan as a telegraph engineer. Further graduated from the Denki Tsushin University of Japan majoring in electronic engineering.

- Deputy director at Altai company
- President at Tavan Bogd Trade LLC, Juulchin LLC, and CEO at MIAT and Palace Hotel
- President of Tavan Bogd Group
- Board member at Khaan Bank
- CEO at Gobi JSC since August 2018.

SURENRAGCHAA NYAMJAV
Deputy director of operations

Graduated from the Hitotsubashi University of Japan majoring in economics with a masters degree.

- Project manager and assistant project manager at Tavan Bogd Trade LLC
- Director of the business operations department at Gobi JSC in April 2015
- Deputy director of operations since November 2015.

ARIUN LUVSAN
Гадаад худалдаа хариуцсан дэд захирал

Graduated from the Ritsumeikan Asia Pacific University of Japan majoring in Marketing and Management.

- Marketing manager at KVH Co.Ltd
- Senior Marketing manager at KVH Co.Ltd Hong Kong branch
- Started working at Gobi JSC in July 2015 as a manager responsible in policy and regulations in the management department
- Deputy director in sales from November 2015
- Deputy director of international Sales since 2017.

TUVSHINTUGS BOLD
Director of Domestic sales

Graduated from the Ube technology college of Japan majoring in chemistry and biology. Further graduated from the Hiroshima University of Japan and the Mongolian State University majoring in physics.

- Head of the innovation department at Mongol Daiwin LLC
- Management and leadership manager at Tavan Bogd Tade LLC
- Former CEO of Delta Holding LLC
- Director of domestic sales of Gobi JSC since May 2017.

SELENGE GANBOLD
Director of finance and accounting

Graduated from the Mongolian State University majoring in finance and business administration.

- Chief accountant of Hermes Tesun LLC
- Senior accountant of Khan Palace LLC
- Accountant and general accountant of the Tavan Bogd Group
- Director of the finance and accounting department of Gobi JSC since 2013.

BOLORMAA BATSUURI
Director of product development

Graduated from the University of Science and Technology of Mongolia majoring in design of sewn products.

- Worked as designer at Darkhan Minj LLC
- Quality inspector at Gobi JSC in 2007
- Designer at Gobi JSC in 2008
- Director of Product Development Department since 2016.

SOLONGO CHULUUNBAT
Director of Human Resources and Administration

Graduated from the university of Science and Technology of Mongolia majoring in architecture.

- International relations manager at Altandornod Mongol LLC
- Senior sales manager in Tavan Bogd Group
- Director of the human resources and administration department at Gobi JSC since 2014.

TSASCHIKHER TSOGTBAYAR
Legal adviser

Graduated from the Police academy majoring in law. Further graduated from the Ikh Zasag University in majoring in law.

- Detective at Police department in Khentii province and Khan-uul district
- Legal adviser at Just Oil LLC
- Lawyer at MCS LLC
- Legal adviser at Gobi JSC since 2014.

SELENGE MUNKHBAT
Secretary of the board of directors

Graduated from the Chiba University in Japan as a general civil engineer. Further graduated from the Mongolian University of Finance and Economics majoring in accounting.

- Accountant with New Hakuba LLC and Burd Petroleum LLC
- Assistant project manager with Tavan Bogd Trade LLC, management and administration manager, and manager within the directors department
- Secretary of the board of directors of Gobi JSC since 2017.

CAPITAL MARKETS AND GOBI JSC LISTED SHARES

Gobi JSC's listed shares have been among the top-20 shares on the Mongolian Stock Exchange. In 2017 the company's shares closed up by 129 percent for the year, with trading volumes having increased by 136 percent as well. Gobi JSC being one of the best performing stocks in the Mongolian Stock Exchange, the company's market capitalization has grown to MNT181.4 billion.

GOBI JSC SHARE TRADING INFORMATION OF 2017

52 WEEK SHARE TRADING AND PRICES

Indicator	2017	2016	2015	Growth	
				2017/2016	2016/2015
SHARE PRICE /MNT/					
Annual closing price	23,260	10,150	8,480	129% ↑	20%↑
Annual peak price	35,180	11,650	11,830	202% ↑	2% ↓
Annual bottom (lowest) price	9,600	7,100	7,160	35% ↑	1% ↓
Annual average price	16,535	8,540	8,313	94% ↑	3% ↑
TRADING VOLUME /NUMBER OF SHARES/					
Highest daily volume	15,286	4,899	8,232	212% ↑	40% ↓
Lowest daily volume	1	1	1	-	-
Average daily volume	579	273	218	112% ↑	25% ↑
Total	140,047	59,302	43,631	136% ↑	36% ↑
TRADING VOLUME /MNT TRANSACTION VALUE/					
Highest daily volume	309,023,660	40,171,855	70,013,160	669% ↑	43% ↓
Lowest daily volume	13,910	8,200	7,350	70% ↑	12% ↑
Average daily volume	10,739,199	2,369,085	1,818,296	353% ↑	30% ↑
Total	2,598,886,145	514,091,470	362,709,570	406% ↑	42% ↑
MARKET CAPITALIZATION /MNT/	181,454,167,500	79,181,418,750	66,153,540,000	129% ↑	20% ↑

DIVIDENDS

DIVIDEND DISTRIBUTION REPORT

Years with dividends	Dividend per share /MNT/	Total dividends distributed /MNT thousands/	Dividend distribution channel
1996	61	475,869	Dividends issued prior to the privatization of Gobi JSC in 2007 where all distributing at headquarters of Gobi JSC.
1997	154	1,199,813	
1998	150	1,170,169	
1999	166	1,294,987	
2000	100	780,113	
2001	20	157,271	
2005	60	468,068	
2006	60	468,068	
2010	100	780,113	100 percent of dividends were distributed through the central depository of securities.
2011	100	780,113	
2012	125	975,141	
2013	130	1,014,146	
2014	140	1,092,158	
2015	140	1,092,158	From 2016.06.01 dividends were distributed at the company headquarters. After 2017.06.30 remaining dividends were distributed through the central depository of securities.
2016	200	1,560,225	From 2017.04.20 dividends were distributed at the company headquarters. After 2017.12.26 remaining dividends were distributed through the central depository of securities.

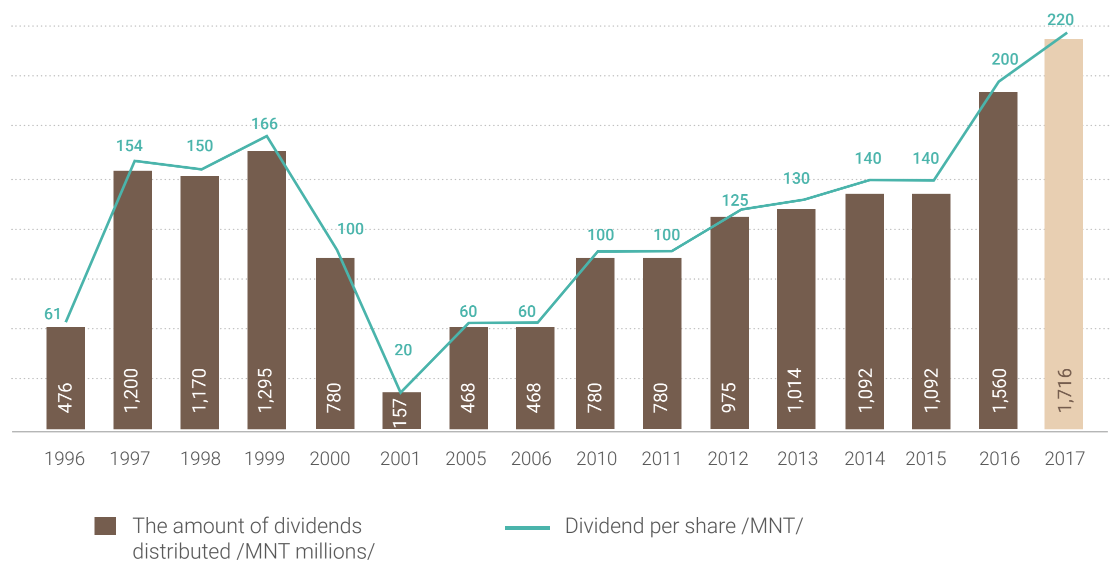
Dividends of 2015 were distributed at the company headquarters. As of the 30th of June 2017 100 percent of all unclaimed dividend payments have been distributed to the respective securities accounts of Gobi JSC shareholders through the through the central depository of securities.

Dividends of 2016 were distributed at the company headquarters as of the 20th of April 2017. Shareholders upon proving their share ownership were free to collect their dividends through cash payments or bank wire. 89.5 percent of all dividend payments have been made through said steps. 15,850 shareholders who represent 816,344 shares outsanding did not claim their dividends within the period. On the 26th of December 2017 100 percent of all unclaimed dividend payments have been distributed to the respective securities accounts of Gobi JSC shareholders through the through the central depository of securities.

DIVIDEND OF 2017

Our company has been able to solidify its domestic market position, and successfully focused on increasing our exports and international sales. Increasing our foreign sales starts with improving our product quality, expand our operations, and become more productive. The end result will be increased shareholder value through higher profits, sustainable operations, and growing dividends and retained earnings.

Gobi JSC's board of directors in its regular meeting on the 2nd of February 2018 decided to issue a MNT 1,716,247,500 dividend, or MNT 220 per share. Compared to 2016 the dividend per share increased by 10 percent.



2017 DIVIDEND DISTRIBUTION CHANNELS

Starting on the 24th of April 2018 the dividend of 2017 will be distributed at the company's headquarters to every shareholder. Every certified owner of Gobi JSC shares may choose either cash or bank wire to receive their dividend. Any unclaimed dividends at the end of 2018 will be distributed to all remaining shareholders through the central depository of securities.

SUSTAINABLE DEVELOPMENT

Gobi JSC strives to continuously grow its manufacturing output, sales channels, and lead Mongolia's development of the cashmere sector. Our key focus is to work sustainably with the environment and nature, working in tandem with our stakeholders and business partners. To operate profitably, provide fair wages, and grow shareholder value Gobi JSC consistently drives its technological development to lead in innovation and efficiency.

Gobi JSC has joined the international Sustainable Fibre Alliance in May 2017 to further increase our commitment and impact on sustainability. The key element in driving forward a Mongolian cashmere sector that is long-term viable we have developed and are working together with Mongolian herder cooperatives to achieve pasture and herd management guidelines to avoid degradation, overgrazing, and decertification. These steps should allow the herders, cashmere traders, and manufacturers and everyone else involved in the supply and value chain to sustainably work together long-term.

BEST CASHMERE – BEST COOPERATIVE
NATURE'S WEALTH – QUALITY STANDARDS
SATISFACTION

SOCIAL RESPONSIBILITY

Our company's goals is to lead in terms of social responsibility. Highlights:

- Our business operations are conducted transparently and fair, social responsibility is one of our key values
- Full adherence to laws and regulations
- To operate and run our business in harmony with the environment and nature, to work towards the positive development of society
- To provide a positive, safe, and comfortable work environment to all our employees
- To hold the rights of our customers, employees, and shareholders paramount
- To do our absolute best in order to provide our customers and users the highest quality goods
- To offer our employees the opportunity to learn and development themselves, to attend and solve social issues.
- To engage fairly and evenly with all business partners, customers, and stakeholders

KEY ACHIEVEMENTS BY GOBI JSC IN SOCIAL RESPONSIBILITY

DONATED COVERLET TO HERDERS

Every spring, the company employees meet herders in countryside area during the process of raw materials' preparation. During this period, our company announces the contest "Who will donate the most coverlet" annually among the employees as a part of the raw material procurement framework. In 2017, 614 coverlets were donated to herders which were collected from 120 employees.

ORGANIZED BLOOD DONOR DAY

Our company has been organizing the "Blood Donor Day" annually by cooperating with the Khan-Uul District Red Cross Committee. In 2017, 109 employees donated 12 liters of blood and saved lives of 9 people.

WORKED WITH CHILDREN WITH DISABILITIES

"International children's day" is a day every children deserve to be happy and full of joy. To make them happier on this special day, we gave out presents to 100 children in Khan-Uul district.

DONATION TO NATIONAL EMERGENCY AGENCY

We donated 100 sleeping bags to National Emergency Management Agency employees, who had been fighting hard to stop the forest fire caused by wrong human activities and excessive dryness in Mongolia. Moreover, we donated 16 million tugriks to the National Emergency Management Agency as an appreciation for the efforts fire fighters made during Gobi fire incident.

PREPARING FUTURE PROFESSIONALS

Our company cooperates with Mongolian-Korean Polytechnic College with the purpose of preparing future professionals. We offer long and short-term internship programs to students and invite them to work as a full time employee if their perform well during internship period. In 2017, a total of 87 students were involved in short-term internship program and 50 students were involved in long-term internship program, of which 26 were invited to work as a full time employee. From the invited students, 17 students are currently working in our company.

RISK MANAGEMENT

In November 2016, Risk and Audit Committee approved the "Risk Management Procedure". This procedure sets out the roles and responsibilities of a risk management team which was established with a purpose of reducing and forecasting risk factors, taking action based on forecast, and implementing long-term and short-term goals of the company.
The Risk Management Team consists of senior managers of the company. N.Surenragchaa (Deputy Director of Operations) is heading the team.

Scope of Risk Management team:

Risks involved in all levels of departments, offices and units in the company.

Principles of quality management implementation system:

Risk management includes activities of predicting, assessing, ranking, responding, reporting, and monitoring situations that might negatively affect the company's goals, objectives, business plans and operations.

Level of Impact	Probability of Occurrence				
	Very high	High	Medium	Low	Very low
Severe	1	2	4	9	10
Significant	3	5	8	11	19
Moderate	6	7	12	18	20
Minor	14	13	17	22	23
Minimal	15	16	21	24	25

Risk rating table:

The risks are ranked by an impact of the risk factors and probability of occurrence.

Risks can be tolerated with awareness
Risks need management
High effort on risk management is required

In 2017, all senior managers of the company worked on identifying risks that could arise in industries, divisions, and units. Also, they worked on categorizing, and ranking risks by the level of impact. Furthermore, they took actions on preventable preconditions. These efforts became major steps in implementing risk management.

In 2017, risk management team identified, and ranked 148 risk factors by the level of negative impact in production, sales and administration departments. The result:
In red zone-27
In yellow zone-74
In Green zone-47 risk factors were identified.

With management team's effort to mitigate risks in every quarter, likelihood of risk occurrence was reduced by 80% at the company level. The following results were obtained:

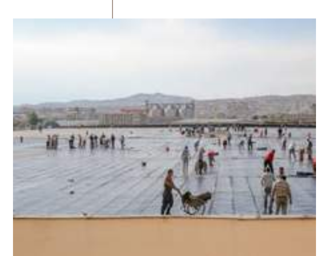
- Improved audit over contracts related with contractors.
- Better estimation on delivery time of supporting materials
- Better consideration on financial risk allocation methods and insurance benefits
- Training system was introduced to manufacturing area with a goal of reducing risks associated with employee skills, and labor shortage.

RISKS OCCURRED IN 2017


FIRE INCIDENT

14th of June
The fire incident happened while contractor workers hired by the Gobi executing repair tasks of the factory roof. The fire incident covered 18,000 square meters. Risk management team took an immediate action during the fire incident. They relocated part of raw materials, and products to safer place. Then covered all the factory equipment with plastic sheets to protect the equipment from getting wet, and prevented water flooding.


15th of June
The rooftop fire were fully contaminated before spreading into plant as a result of quick actions taken by Government bodies such as National Emergency Management Agency and Water and Sewerage Authority.




24th of June
The factory started working normally within 10 days after the incident. To restore the factory operations, 1,100 employees worked for 62,323 man-hours. This achievement certainly tied to effective management, right actions taken by risk management team, and employees.

LESSON

Factory equipment and products were insured, and that enabled us to sustain minimal damage in the fire accident. We will maintain following actions to prevent risks of this kind in the future.

1. Company strengthened its oversight on contractors by monitoring work progress, and reminding potential risks.
2. Started providing trainings focused on employee safety, risks, hygiene, and instructions.
3. We renewed insurance contract for company property, inventory, equipment and building.
4. We renewed our disaster prevention plan, and it was reviewed and approved by the Khan-Uul district's Emergency Management Agency.
5. The emergency training in cooperation with the Khan-uul Emergency Management Agency was conducted on November 30th and December 1st of 2017, and the company officially designated "Disaster Prevention group"

The "Disaster Protection Group" employs a total of 86, and is divided into eight groups depending on the emergency response function.

Trainning of Disaster Protection

In the future, Risk Management team and Disaster protection shall take action in accordance with the "Disaster Protection Plan" if natural disaster and sudden danger occurs. The potential risk factors will be identified and assessed by the Risk Management Team quarterly, and will take the necessary actions in a timely manner.

QUALITY CONTROL

GOBI JSC conducts quality audits under 230 indicators in all stages of production from collecting raw materials from herders to producing finished products. The company strictly adheres to technological procedures of production, and certifies its products in accordance with the requirements of ISO 9001: 2008 / ISO 9001: 2010, ISO / IEC 17025 to offer products to domestic and international customers.

We have been implementing quality management system for each stage of the production process to meet the needs of our customers. We have been continuously improving quality management system through following 68 MNS standards, internal 73 procedures, standards, technological procedures, work instructions. We are continuously working to improve quality control.

In 2018, we are introducing an international quality ISO 9001: 2015 standard, and planning to introduce ISO 14001 environmental management system in 2019.

In 1994 - ISO 9001 International standard quality management system certification

In 1997 'Mongolian national conformity mark' certification

In 1999 ISO/IEC 17025:2005 (MNS ISO/IEC 17025:2007) 'Measuring laboratory' certification

In 1999 SO/IEC 17025:2005 (MNS ISO/IEC 17025:2007) 'Integrated laboratory' certification

CONSOLIDATED
FINANCIAL
REPORT

INDEPENDENT AUDITOR

The Risk Audit Committee of Gobi JSC sets out the independence, qualification, work experience, and other criteria for an independent auditor. Moreover, it develops proposals on the terms of the contract such as the rights, responsibilities, and the amount to be paid. Further, it is responsible for evaluating the performance of independent auditors, approving contracts, monitoring their activities, evaluating their execution, and terminating the contract.

Deloitte Onch Audit LLC audited Consolidated financial statements for the year ended 31 December 2017 of Gobi JSC. Deloitte is one of the four largest international auditing firms and has been operating in Mongolia since 2012 and was registered in a Financial Regulatory Commission in 2014.

The payment amount given to Deloitte Onch Audit LLC: 46,000,000 /MNT 46 millions/

GOBI

MONGOLIAN CASHMERE

GOBI JSC AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2017

GOBI JSC AND ITS SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENTS PAGES

CONSOLIDATED FINANCIAL STATEMENTS

GOBI

GOBI CORPORATION
Industrial street, 3rd khoroo, Khan-Uul District,
Ulaanbaatar-17062, Mongolia
Tel: +976- 70135511, Fax: 976- 70143081,
E-mail: info@gobi.mn, Web site: www.gobi.mn

Date: 2018.03.09 Ref: 01/190
Re. your ref: ______ dated: ______

STATEMENT BY EXECUTIVES

I, Baatarsaikhan Tsagaach is the Chief Executive Officer of Gobi Corporation ("the Company"), and Selenge Ganbold the Director of Financial Department , being the officers primarily responsible for the financial reporting of the Company, do hereby state that, in our opinion, the accompanying financial statements set out on pages 1 to 38 are drawn up in accordance with applicable International Financial Reporting Standards so as to present fairly view of the financial position of the Company as at December 31, 2017 and of the financial performance and the cash flows of the Company for the year then ended.

Baatarsaikhan Tsagaach	Selenge Ganbold
Chief Executive Officer	Director of Financial Department

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gobi JSC,

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gobi JSC ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the area of focus
Valuation of inventories We identified the valuation of inventories as a key audit matter due to the significant use of judgement by the management in determining the allowance for slow moving or obsolete inventory. 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. As disclosed in notes 3 and 8 to the consolidated financial statements, the carrying value of the inventory at 31 December 2017 amounted to MNT 101,271,760 thousand (net of allowance for slow moving and obsolete items of MNT 736,303 thousand).	Our procedures in relation to valuation of the inventory included: • Understanding management's assessment in estimating the net realisable values of the inventories and the internal procedures for making allowance to write off or write down inventories to their net realisable values. • Assessing the reasonableness of allowance for inventories with reference to historical sales records, current market conditions, marketing and promotion plans, aging analysis and subsequent selling prices of the inventories. • Testing the ageing of inventory, on a sample basis, to the source documents; • Tracing a selection of inventories with subsequent selling prices to the source documents.

Deloitte.

Key audit matter	How our audit addressed the area of focus
Completeness and valuation of provisions for tax We identified the completeness of provision for tax as a key audit matter due to the judgement required in relation to interpretation of tax regulations and estimation in measuring the provision for the Group's tax liability. The Government of Mongolia continues to reform the business and commercial infrastructure in its transition to a market economy. As a result the laws and regulations affecting businesses continue to change rapidly. Taxes are subject to review and investigation by a number of authorities who are enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group	Our procedures in relation to completeness and valuation of provision for tax included: • Understanding management's assessment in identifying tax positions and the related accounting policy of provisioning for tax exposures. • Assessing the appropriateness of provisions recorded in the financial statements, or the rationale for not recording a provision, by using our specialist tax knowledge with reference to the applicable tax rule and practices, and the latest correspondence between the Group and the various tax authorities. • Evaluating the adequacy of the disclosures and provisions recorded in the financial statements, including whether the provisions sufficiently address probable penalties and interest, were appropriate and reflect the latest developments.
Recoverability of accounts and other receivables We identified the recoverability of accounts and other receivable as a key audit matter due to the judgement involved in determining the recoverability of receivables. As disclosed in notes 3 and 6 to the consolidated financial statements, the carrying value of accounts and other receivables at 31 December 2017 amounted to MNT 11,644,199 thousand (net of allowance for doubtful debts of MNT 1,425,547 thousand). In determining the allowance for trade receivables, management specifically analysed historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when applying their judgement to evaluate the adequacy of the allowance for doubtful debts of the accounts and other receivables.	Our procedures in relation to the recoverability of the accounts and other receivables included: • Obtaining an understanding of how allowance for accounts and other receivables is estimated by the management. • Testing the aging analysis of the receivables, on a sample basis, to the source documents to understand and quantify the potential risk in overdue balances. • For all amounts past due over 60 days , tracing to the credit insurance contracts and the cash receipt after the year end date to assess whether the amounts are covered by the insured amount. For amounts not covered by insurance, assessing the reasonableness of allowance with reference to that customer's historic payment performance. • Tracing the subsequent settlements to source documents. • Evaluating the historical accuracy of the allowance estimation by management by comparing historical allowance made to the actual settlement and actual loss incurred and tracing, on a sample basis, to the source documents.

Other information

Management is responsible for the other information. The other information comprises the information included in the Chairman and CEO statements. Other information is expected to be made available to us after the date of this auditor's report.

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

Deloitte.

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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and we are required to perform other procedures to conclude whether:

- A material misstatements of the other information exists;
- A material misstatements of the Group's financial statements exists; or
- Our understanding of the Group and its environment needs to be updated.

If we conclude that material misstatement exists in other information and this is not corrected we will ask those charged with governance to take appropriate actions in order to bring the uncorrected material misstatements to the attention of the users for whom our report is prepared.

If we conclude that material misstatement exists in the Group's financial statements or our understanding of the Group's and its environment, we shall respond appropriately in accordance with other ISAs.

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 IFRSs 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.

Auditor's 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 auditor's 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.

Report on Other Legal and Regulatory Requirements

Under the Company law of Mongolia paragraph 92 and 94 we are required to report to you if there have been:

- transactions that determined a conflict of interest;
- findings on the accounting and financial reporting;
- other information which are required by Financial Regulatory Commission, the Mongolian Stock Exchange and the law on security market; and
- other information required by the Company's charter and audit contract.

We have no exceptions to report arising from this responsibility.

The engagement partner on the audit resulting in this independent auditor's report is Norjinbat Shagdarsuren.

Norjinbat Shagdarsuren
Director, CPA
Deloitte Onch Audit LLC
9 March 2018

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	5	7,183,762	2,614,270
Accounts and other receivables	6	11,644,199	19,721,388
Prepayments and advances	7	2,811,450	2,457,705
Inventories	8	101,271,760	58,737,861
		122,911,171	**83,531,224**
Non-current assets			
Property, plant and equipment	9	57,274,775	52,035,760
Deferred tax assets	19.3	83,931	-
Other non-current assets	11	459,043	305,822
		57,817,749	**52,341,582**
Total Assets		**180,728,920**	**135,872,806**
LIABILITIES AND OWNERS' EQUITY			
Current liabilities			
Accounts and other payables	12	6,372,509	4,298,237
Corporate income tax payable	19.2	1,971,410	2,196,930
Borrowings	13	40,469,033	31,678,103
		48,812,952	**38,173,270**
Non-current liabilities			
Deferred tax liability	19.3	-	63,993
Borrowings	13	30,202,780	11,836,840
		30,202,780	**11,900,833**
Total Liabilities		**79,015,732**	**50,074,103**
Owners' Equity			
Share capital	14	780,113	780,113
Revaluation surplus	17	15,647,697	15,647,697
Foreign currency translation reserve	18	(28,274)	-
Retained earnings		85,313,652	69,370,893
		101,713,188	**85,798,703**
Total Liabilities and Owners' Equity		**180,728,920**	**135,872,806**

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

1

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2017	2016
Revenue	20.1	124,425,107	88,673,668
Cost of sales	20.2	(73,880,650)	(52,454,588)
Gross profit		50,544,457	36,219,080
Finance and other income	21	848,816	1,914,467
Other (losses) and gains	22	(571,863)	2,034,960
Interest expense		(6,496,773)	(4,171,500)
Selling and marketing expenses		(12,121,296)	(8,169,197)
General and administrative expenses		(8,761,080)	(6,692,310)
Profit before taxation		**23,442,261**	**21,135,500**
Income tax expense	19	(5,939,277)	(4,996,596)
Net profit for the year		**17,502,984**	**16,138,904**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of land	17	-	2,276,718
Other comprehensive expense that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign subsidiaries	18	(28,274)	-
Other comprehensive (expense)/income for the year		**(28,274)**	**2,276,718**
Total comprehensive income for the year		**17,474,710**	**18,415,622**
Earnings per share - basic	16	**2.24**	**2.07**
Earnings per share - diluted		**2.24**	**2.07**

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

2

CONSOLIDATED FINANCIAL REPORT

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	Share Capital	Revaluation surplus	Foreign currency translation reserve	Retained Earnings	Total equity
Balance as of 31 December 2015		**780,113**	**13,370,979**	**-**	**54,324,146**	**68,475,238**
Net profit for the year		-	-	**-**	16,138,904	**16,138,904**
Other comprehensive income	17	-	2,276,718	**-**	-	**2,276,718**
Total comprehensive income for the year		-	2,276,718	**-**	16,138,904	**18,415,622**
Declared dividend	15	-	-	**-**	(1,092,157)	**(1,092,157)**
Balance as of 31 December 2016		**780,113**	**15,647,697**	**-**	**69,370,893**	**85,798,703**
Net profit for the year		**-**	**-**	**-**	17,502,984	**17,502,984**
Other comprehensive expense	18	**-**	**-**	(28,274)	**-**	**(28,274)**
Total comprehensive income for the year		**-**	**-**	**(28,274)**	**17,502,984**	**17,474,710**
Declared dividend	15	**-**	**-**	**-**	(1,560,225)	**(1,560,225)**
Balance as of 31 December 2017		**780,113**	**15,647,697**	**(28,274)**	**85,313,652**	**101,713,188**

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

3

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		17,502,984	16,138,904
Adjustments for:			
Depreciation and amortization	9, 11.1	5,633,556	4,535,367
Income tax expense	19	5,939,277	4,996,596
Interest expense		6,496,773	4,171,500
Loss/(gain) from foreign exchange rate differences		149,478	(438,320)
Provision for doubtful debts	6.3	-	13,139
(Reversal)/ provision of inventories allowance	8	(169,909)	178,829
Loss from disposal of property, plant and equipment	22	181,228	140,720
Compensation from insurance reimbursement in excess of property plant and equipment written off and inventories written down	22	(383,784)	-
		35,349,603	29,736,735
Increase in accounts and other receivables		(5,545,377)	(1,224,032)
(Increase)/decrease in prepayments and advances		(353,745)	5,872,378
Increase in inventories		(43,127,472)	(12,549,907)
Increase in accounts and other payables		2,235,534	493,877
		(11,441,457)	22,329,051
Income tax paid	19.2	(6,312,721)	(3,034,060)
Interest paid		(6,183,446)	(4,228,509)
Net cash flows (used in)/from operating activities		**(23,937,624)**	**15,066,482**
Cash flows used in investing activities			
Proceeds from sale of property, plant and equipment		245,456	49,505
Proceeds from insurance reimbursement		4,400,000	-
Acquisition of property, plant and equipment	9	(14,530,295)	(16,178,831)
Acquisition of other non-current assets	11.1	(38,503)	(252,993)
Advances provided to related parties	23.2	(11,430,480)	(22,300,000)
Repayment of advances from related parties	23.2	25,430,480	15,697,789
Net cash flows from/(used in) investing activities		**4,076,658**	**(22,984,530)**
Cash flows from/(used in) financing activities			
Proceeds from borrowings	13.2	100,162,894	12,308,009
Repayment of borrowings	13.2	(74,023,755)	(18,808,060)
Payment of dividends	15	(1,681,761)	(972,695)
Advances received from related parties	13.2	17,046,070	-
Repayment of advances to related parties	13.2	(17,046,070)	-
Net cash flows from/(used in) financing activities		**24,457,378**	**(7,472,746)**
Effects of exchange rate changes on cash		(26,920)	(6,285)
Increase/(decrease) in cash and cash equivalents		**4,569,492**	**(15,397,079)**
Cash and cash equivalents, at the beginning of the year		**2,614,270**	**18,011,349**
Cash and cash equivalents, at the end of the year	5	**7,183,762**	**2,614,270**

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

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GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
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1. Operations and organization

Gobi JSC ("the Company") is a joint stock company incorporated under the laws of Mongolia in 1981. The Company's parent and ultimate holding company is Tavan Bogd Trade LLC and its ultimate controlling party is Mr. Baatarsaikhan Tsagaach.

The consolidated financial statements as of and for the year ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the "Group").

The subsidiaries of the Group and the movement in ownership during the year are set out at Note 10.

During the years ended 31 December 2017 and 2016, the Group's primary operations consisted of production and selling of cashmere knitwear, sewn and woven products.

The Group's registered address and principal place of business is Gobi Corporation office building, Industrial Street, 3rd khoroo, Khan-Uul district, Ulaanbaatar-17062, Mongolia.

The consolidated financial statements were authorized for issue by the executive management of the Group on 3 March 2018.

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.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at revalued amount, 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 Mongolian Togrogs ("MNT"), which is the Company's functional currency.

All financial information is presented in thousands of Mongolian Togrogs, unless otherwise indicated.

2.3 Basis of consolidation

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

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

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

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GOBI JSC AND ITS SUBSIDIARIES
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2. Summary of significant accounting policies (cont'd)

2.3 Basis of consolidation (cont'd)

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.

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

2.4 Inventories

Inventories are measured at the lower of purchase and/or production cost, calculated by means of the weighted average cost method, and net realizable 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. Net realizable value consists of the estimated selling price less estimated completion costs and estimated selling costs.
Where necessary, an allowance for obsolescence is established for materials or products, in view of their expected use and realizable 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 with the passage of 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 treated as a finance lease and are initially recognised as assets of the Group at their fair value at the inception of the lease which is usually nil value as these land rights were acquired prior to the Land Law of Mongolia that came into force on 1 January 2003. The Land Law of Mongolia provided a legal basis for Mongolian legal entities hold land rights.

The land rights acquired from individuals or other entities are initially recognized at their fair values at the date of acquisition. The Group pays annual lease payments to the Government upon acquisition of the land rights and the lease payments are insignificant.

The related value equal to the lump sum paid for the right that can be renewed periodically for an indefinite time.

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2. Summary of significant accounting policies (cont'd)

2.6 Property, plant and equipment (cont'd)

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 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 capitalized as part of that equipment.

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 are 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 properties revaluation reserve is transferred directly to retained earnings.

Subsequent expenditures relating to property, plant and equipment that have already been recognized 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 recognized as expenses in the period in which those are incurred.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method. 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 prospective basis.

The useful lives of the assets is as follows:

Land	Nil
Buildings	40 years
Plant and equipment	10 years
Furniture and fixtures	3 to 10 years
Vehicles	10 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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.

2. Summary of significant accounting policies (cont'd)

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.

The useful life of the intangible assets is 3 to 10 years.

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

2.8 Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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.

2. Summary of significant accounting policies (cont'd)

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. 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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"),'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

The Group's financial assets consist of loans and receivables and AFS.

2.10.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including accounts and other receivables, cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

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. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount an initial recognition.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2.10.2 Available-for-sale (AFS)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity investments or financials assets at fair value through profit or loss.

AFS equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period.

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2. Summary of significant accounting policies (cont'd)

2.10 Financial assets (cont'd)

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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

2.10.4 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets that are carried at cost the amount of the impairment loss is measured as difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as accounts receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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2. Summary of significant accounting policies (cont'd)

2.11 Financial liabilities and equity instruments

2.11.1 Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with 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

Financial liabilities are recognized in the Group's consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Group's financial liabilities consist of other financial liabilities.

2.11.4 Other financial liabilities

Other financial liabilities (including borrowings and accounts and other payables) are subsequently measured at amortised cost using the effective interest method. 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 net carrying amount on initial recognition.

2.11.5 Derecognition of financial liabilities

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

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2. Summary of significant accounting policies (cont'd)

2.12 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

2.12.1 Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specially, revenue from the sale of goods is recognised when goods are delivered.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

2.12.2 Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2.12.3 Rental income

Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the lease.

2.12.4 Other income

Other income are income generated outside the normal course of business and are recognized when it is probable that the economic benefits will flow to the Group and it can be measured reliably.

2.13 Leasing

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

2.13.1 The Group as lessor

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.

2.13.2 The Group as lessee

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.

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2. Summary of significant accounting policies (cont'd)

2.14 Foreign currencies

In preparing the financial statements of each individual 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 consolidated statement of financial position. Exchange differences arising from the changes in exchange rates subsequent to the dates of the transactions for monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the period in which they arise.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Mongolian Togrogs using exchange rates prevailing at the end of the 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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.17 Employee benefits

The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before twelve months after the end of the reporting period. A liability is also recognized 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 the obligation can be estimated reliably.

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

2. Summary of significant accounting policies (cont'd)

2.18 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

2.19 Contingent liabilities and assets

Contingent liabilities and assets are not recognized 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 and a related party, regardless of whether a price is charged. A person or a close member of that person's family is related to the Group if that person:

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

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

- the entity and reporting entity are members of same group which means that each parent, subsidiary and fellow subsidiary is related to each other's;
- 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 controlled or jointly controlled by a person who is a related party as identified above; and
- a person that has control or joint control over the reporting entity has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity.

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2. Summary of significant accounting policies (cont'd)

2.21 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

2.21.1 Current tax

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

2.21.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, to the extent that the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments is only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, 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 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.

2.21.3 Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(IN THOUSANDS OF MONGOLIAN TOGROGS)

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 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 directors of the Group are of the opinion 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 2,576,718 thousand (2016: MNT 2,576,718 thousand) is stated at the revalued amount less accumulated impairment and is not depreciated.

3.1.2 Tax system in Mongolia

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

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

3.2 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 Recoverability of accounts and other receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of the allowance of doubtful debts of receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

As at 31 December 2017, the carrying amount of accounts and other receivables is MNT 11,644,199 thousand, net of allowance for doubtful debts of MNT 1,425,547 thousand (31 December 2016: the carrying amount of accounts and other receivables is MNT 19,721,388 thousand, net of allowance for doubtful debts of MNT 1,451,731 thousand).

3.2.2 Valuation of inventories

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. Critical accounting judgements and key sources of estimation uncertainty (cont'd)

3.2 Key sources of estimation uncertainty (cont'd)

3.2.2 Valuation of inventories (cont'd)

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

As at 31 December 2017, the carrying amount of inventories is MNT 101,271,760 thousand, net of provision for inventories of MNT 736,303 thousand (31 December 2016: the carrying amount of inventories is MNT 58,737,861 thousand, net of provision for inventories of MNT 906,212 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 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 believe 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 fair value for financial reporting purposes. In estimating the fair value of an asset, the Group uses market-observable data to 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 9.2.

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

Amendments to IFRSs and new Interpretations that are mandatory 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 2017.

Effective for annual periods beginning or after	**Amendments**
1 January 2017	Amendments to IAS 7 *Disclosure Initiative*
	Amendments to IAS 12 *Recognition of Deferred tax assets for unrealised losses*
	Amendments to IFRS 12 included in *Annual Improvements to IFRS Standards 2014-2016 Cycle*

The Group's liabilities arising from financing activities consist of only borrowings (note 13). A reconciliation between the opening and closing balances of these items is provided in note 13.2. Consistent with the transition provisions of the amendments to IAS 7, the Group has not disclosed comparative information for the prior periods. Apart for the additional disclosure in note 13.2, the application of the amendments to IAS 17 has had no impact on the Group's consolidated financial statements.

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

The Group has not applied the following new 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 2018	IFRS 9 *Financial Instruments*
	IFRS 15 *Revenue from Contracts with Customers*
	Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*
	IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
	Amendments to IAS 40 *Transfers of Investment Property*
	Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
	Annual Improvements to IFRS Standards 2014-2016 Cycle
1 January 2019	IFRS 16 *Leases*
	IFRIC 23 *Uncertainty over Income Tax Treatments*
	Amendments to IFRS 9 *Prepayment Features with Negative Compensation*
	Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*
	Amendments to IAS *28 Long-term Interests in Associates and Joint Ventures*
	Annual Improvements to IFRS Standards 2015-2017 Cycle
1 January 2021	IFRS 17 *Insurance Contracts*
To be determined	Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The executive management of the Group is in the process of reviewing the application of these new and revised IFRSs. The determination of the impact of the consolidated financial statements is not complete yet, however the Group expects that the impact will be immaterial.

5. Cash and cash equivalents

	2017	2016
Cash on hand and in bank – Foreign currency	5,539,450	469,602
Cash on hand and in bank – MNT	1,644,312	1,403,047
Cash equivalents	-	741,621
	7,183,762	**2,614,270**

Cash in bank represents bank current accounts bearing nil to 7.2% interest per annum for MNT and nil to 1.2% interest per annum for foreign currency accounts.

Cash equivalents was short-term, highly liquid deposit bearing 6.5%-16.1% interest per annum that were readily convertible to known amounts of cash and which were subject to an insignificant risk of changes in value.

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6. Accounts and other receivables

	2017	2016
Accounts receivable	12,347,583	6,777,888
Receivables from related parties (see Note 23.1)	8,409	14,002,010
Other receivables	713,754	393,221
	13,069,746	21,173,119
Allowance for doubtful accounts	(1,425,547)	(1,451,731)
	11,644,199	**19,721,388**

6.1 Accounts receivable

The average credit period on sales of goods is 60 days within pre-approved credit limits. No interest is charged on overdue account receivables. Before accepting any new customer, management of the Group assess the potential client credit quality and defines credit limits by customer.

The Group has recognized an allowance for doubtful debts by reviewing each specific receivable based on the aging analysis and the history of credit defaults and the current financial performance of the customer.

Account receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality with those customers and the receivables are considered fully recoverable.

Age of receivables that are past due but not impaired:

	2017	2016
61 - 90 days	163,005	87,197
91 - 180 days	92,387	306,945
181 - 360 days	5,538	30,721
	260,930	**424,863**

6.2 Other receivables

	2017	2016
Other receivables	308,105	67,192
VAT receivables	262,406	261,947
Receivable from employee	143,243	64,082
	713,754	**393,221**

6.3 Allowance for doubtful debts

Movement in the allowance for doubtful debts:

	2017	2016
Balance at beginning of the year	1,451,731	1,440,549
Impairment losses recognized on receivables	-	13,139
Written off during the year as uncollectible	(26,184)	(1,957)
Balance at end of the year	**1,425,547**	**1,451,731**

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6. Accounts and other receivables (cont'd)

Age of impaired receivables:

	2017	2016
181 - 360 days	-	8,301
Above 361 days	1,425,547	1,443,430
	1,425,547	**1,451,731**

7. Prepayment and advances

	2017	2016
Advance payments to vendors	2,787,958	2,423,738
Prepaid tax	5,397	18,201
Prepaid expense	18,095	15,766
	2,811,450	**2,457,705**

8. Inventories

	2017	2016
Raw materials	41,998,818	24,892,142
Work in progress	21,536,660	10,131,853
Finished goods	27,922,191	18,993,480
Consumables	9,607,192	4,977,830
Goods in transit	943,202	648,768
	102,008,063	59,644,073
Allowance for slow moving and obsolete items	(736,303)	(906,212)
	101,271,760	**58,737,861**

Raw materials include raw cashmere, de-haired cashmere and cashmere yarns. The cost of inventories charged to cost of sales during the year amounted to MNT 72.4 billion (31 December 2016: MNT 51.7 billion).

During the year, the Group capitalized salaries and related staff costs amounting to MNT 15,204 million (31 December 2016: MNT 11,595 million) in inventories.

Movement in the allowance for obsolete and slow moving items:

	2017	2016
Balance at beginning of the year	906,212	727,383
Provided allowance for slow moving and obsolete	44,742	215,323
Reversal of items previously provided for	(214,651)	(36,494)
Balance at end of the year	**736,303**	**906,212**

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9. Property, plant and equipment

	Land	Buildings	Plant and Equipment	Furniture and fixtures	Vehicles	Construction in progress	Total
Cost or valuation:							
31 December 2015	**300,000**	**19,979,221**	**38,143,350**	**1,655,481**	**1,482,354**	**-**	**61,560,406**
Additions	-	967,350	4,559,966	800,746	321,477	9,529,292	16,178,831
Revaluation (note 17)	2,276,718	-	-	-	-	-	2,276,718
Disposals	-	-	(627,236)	(69,914)	(244,392)	-	(941,542)
Reclassification	-	111,526	(114,729)	3,203	-	-	-
31 December 2016	**2,576,718**	**21,058,097**	**41,961,351**	**2,389,516**	**1,559,439**	**9,529,292**	**79,074,413**
Additions	-	4,301,440	6,935,882	1,114,185	400,148	1,778,640	14,530,295
Disposals	-	(63,946)	(936,655)	(174,369)	(213,965)	-	(1,388,935)
Write-off (note 20.3)	-	(3,490,667)	-	-	-	-	(3,490,667)
Effect of foreign currency exchange differences	-	-	-	27,533	-	-	27,533
Reclassified to the intangible assets (note 11.1)	-	-	-	(124,658)	-	-	(124,658)
Reclassification	-	1,667,578	1,399,891	-	-	(3,067,469)	-
31 December 2017	**2,576,718**	**23,472,502**	**49,360,469**	**3,232,207**	**1,745,622**	**8,240,463**	**88,627,981**
Accumulated depreciation:							
31 December 2015	**-**	**222,591**	**21,934,813**	**565,393**	**552,839**	**-**	**23,275,636**
Depreciation	-	840,756	3,344,872	181,476	147,230	-	4,514,334
Disposals	-	-	(534,969)	(38,505)	(177,843)	-	(751,317)
Reclassification	-	76,196	(68,600)	(7,596)	-	-	-
31 December 2016	**-**	**1,139,543**	**24,676,116**	**700,768**	**522,226**	**-**	**27,038,653**
Depreciation	-	909,558	4,093,670	346,056	177,992	-	5,527,276
Disposals	-	(5,279)	(698,706)	(110,554)	(147,712)	-	(962,251)
Write-off (note 20.3)	-	(237,933)	-	-	-	-	(237,933)
Effect of foreign currency exchange differences	-	-	-	969	-	-	969
Reclassified to the intangible assets (note 11.1)	-	-	-	(13,508)	-	-	(13,508)
31 December 2017	**-**	**1,805,889**	**28,071,080**	**923,731**	**552,506**	**-**	**31,353,206**
Balances:							
31 December 2016	**2,576,718**	**19,918,554**	**17,285,235**	**1,688,748**	**1,037,213**	**9,529,292**	**52,035,760**
31 December 2017	**2,576,718**	**21,666,613**	**21,289,389**	**2,308,476**	**1,193,116**	**8,240,463**	**57,274,775**

Starting from 2016, the Group, in relation to the lands, changed the accounting policy and started valuing the lands applying the revaluation model instead of the cost model.

The construction in progress is built on a land which title is owned by the parent company of the Group.

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9. Property, plant and equipment (cont'd)

9.1 Assets pledged as security

As of 31 December 2017, lands, buildings, building under construction and equipment with total carrying amount of MNT 38,455 million (31 December 2016: the carrying amount of MNT 17,531 million) are pledged as security for bank loans. (See Note 13.1).

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

The Group's lands and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses.
The revaluation of the Group's buildings and lands were performed by an independent appraiser not related to the Group as at 31 December 2015 and 31 December 2016 respectively.

The fair value of the land was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

The Group reassessed the fair value of these assets as at 31 December 2017 did not identify material adjustment from the carrying value as at 31 December 2017, therefore in accordance with IAS 16 the values have not been adjusted.

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

	2017		2016	
	Level 3	Fair value as at 31 December 2017	Level 3	Fair value as at 31 December 2016
Land	2,576,718	2,576,718	2,576,718	2,576,718
Buildings	21,666,613	21,666,613	19,918,554	19,918,554
	24,243,331	**24,243,331**	**22,495,272**	**22,495,272**

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

	2017	2016
Land	300,000	300,000
Buildings	8,295,634	7,345,753

9.3 Gross carrying amount of the fully depreciated property, plant and equipment

	2017	2016
Cost	**5,675,205**	**5,828,035**

9.4 Depreciation and amortisation charged to profit or loss and inventories

Depreciation and amortisation charged to selling and general administrative expenses:

	2017	2016
Depreciation of property, plant and equipment	827,393	615,997
Amortisation of intangible assets	79,513	21,033
	906,906	**637,030**

During the year, the Group capitalized depreciation expenses amounted to MNT 4,727 million (31 December 2016: MNT 3,898 million) in inventories.

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10. Subsidiaries

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2017	2016
Gobi Cashmere Europe GmbH (i)	Trading	Germany	100%	100%
Gobi Cashmere Inner Mongolia Co.Ltd (ii)	Trading	China	100%	100%
Gobi Cashmere SPRL (iii)	Trading	Belgium	100%	-

(i) In November 2016, Gobi JSC established a wholly owned subsidiary, Gobi Cashmere Europe GmbH in Berlin, Germany. This subsidiary purchases cashmere products only from the Company and sells these goods through its self-owned two stores.

(ii) In December 2016, Gobi JSC established a wholly owned subsidiary, Gobi Cashmere Inner Mongolia Co.Ltd in Erlian, China. This subsidiary purchases cashmere products only from the Company and sells these goods through its self-owned one store.

(iii) In January 2017, Gobi JSC established a wholly owned subsidiary, Gobi Cashmere SPRL in Brussel, Belgium. This subsidiary purchases cashmere products only from the Company and sells these goods through its self-owned one store.

11. Other non-current assets

	2017	2016
Intangible assets	280,115	236,742
Deposit placed for lease stores	169,928	60,080
Investments	9,000	9,000
	459,043	**305,822**

11.1 Intangible assets

	2017	2016
Carrying amount		
At January 1	236,742	4,782
Purchased	38,503	252,993
Reclassified from property, plant equipment (note 9)	111,150	-
Amortization for the year	(106,280)	(21,033)
Net book value at 31 December	**280,115**	**236,742**

Intangible assets comprise accounting software.

11.2 Investments

The Group holds 12.5% of shares of Mongol Nooluur Negdel LLC and 0.1% of shares of Mongol 999 National Consortium LLC and the Group does not exercise significant influence over Mongol Nooluur Negdel LLC and Mongol 999 National Consortium LLC. For this reason investments are classified as available for sale without an active market and the related fair values cannot be reliably measured, these investments are measured at cost.

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12. Accounts and other payables

	2017	2016
Accounts payable	2,226,192	1,560,089
Advances received	985,822	677,181
Other taxes payable (excluding corporate income tax)	1,275,324	749,740
Salary payable	1,638,481	956,678
Dividend payable (see Note 15)	169,858	291,394
Other payables	76,832	63,155
	6,372,509	**4,298,237**

Account payable mainly relate to raw material purchases from foreign and domestic vendors and the credit term on purchases of inventory ranges from 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are paid within the contractual terms.

13. Borrowings

	2017	2016
Current liabilities	40,469,033	31,678,103
Non-current liabilities	30,202,780	11,836,840
	70,671,813	**43,514,943**

Terms and conditions of outstanding loans were as follows:

	2017		2016	
	Current liability	**Non-current liability**	**Current liability**	**Non-current liability**
Secured loans:				
Development Bank of Mongolia LLC (i)	19,417,040	-	-	-
Xac Bank LLC (ii)	14,562,780	-	-	-
Golomt Bank of Mongolia (iii)	5,928,952	-	18,685,242	-
European Bank for Reconstruction and Development (iv)	-	14,562,780	-	-
Trade Development Bank of Mongolia (v)	120,000	15,640,000	12,720,000	11,836,840
Khan Bank of Mongolia (vi)	-	-	145,927	-
Interest payable	440,261	-	126,934	-
Total borrowings	**40,469,033**	**30,202,780**	**31,678,103**	**11,836,840**

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2017	2016
Effective interest rates:		
Fixed-rate borrowings	7% to 9%	7% to 9%
Variable-rate borrowings	7.35%	n/a

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13. Borrowings (cont'd)

13.1 Summary of borrowing arrangements

(i) In July 2017, the Group obtained a loan for 11.3 months amounting to USD 8 million (MNT 18,871,920 thousand) bearing interest rate of 8% in order to finance the working capital. The loan is due to be fully repaid in June 2018 and is secured by inventory of the Group.

(ii) In October 2017, the Group obtained a credit line for 12 months amounting to USD 6 million (MNT 14,778,120 thousand) bearing interest rate of 8%. The credit line is due to be fully repaid in October 2018 and is secured by inventory of the Group.

(iii) Loans from Golomt Bank of Mongolia as at 31 December 2017 and 2016 are as follows:

- The Group obtained working capital loans in the amount of MNT 5 billion in 2013, MNT 10 billion in 2014 and MNT 3 billion in 2015 bearing an interest of 8% per annum for each loan. These loans were issued as part of the implementation of the Government's program to support domestic cashmere processing companies. The repayments of the loans started in August 2016 and were fully repaid in November 2017. The loans were secured by buildings and lands of the Group.
- On 4 October 2016 and 9 December 2016, the Group obtained loans in the amounts of EUR 601,305 (MNT 1,566,875 thousand) and EUR 352,433 (MNT 918,366 thousand) bearing interest rates of 8.24% and 7.50% respectively. These loans were fully repaid in September and November 2017 respectively. The loans were secured by buildings and lands of the Group.
- In January 2017 and March 2017, the Group obtained further loans in the amounts of EUR 725,968 (MNT 1,926,546 thousand) and EUR 1,320,000 (MNT 3,825,188 thousand) bearing interest rates of 8.2% and 7.8% respectively. These loans have been fully repaid in January and February 2018 respectively in accordance with the repayment terms. The loans were secured by buildings and land of the Group.

(iv) In September 2017, the Group obtained two loans in the amounts of USD 4 million (MNT 9,488,640 thousand) and USD 6 million (MNT 14,778,120 thousand) bearing an annual interest of six-month the London Interbank Offered Rate (LIBOR) plus 6% to increase liquidity and working capital of the Group. The Group fully repaid USD 4 million loan in December 2017. The USD 6 million will be repaid in 2021. The loans are subject to debt covenants that, as at 31 December 2017, have not been breached. The loan is secured by the factory buildings, certain factory equipment, building under construction and inventory of the Group.

(v) Loans from Trade and Development Bank of Mongolia as at 31 December 2017 and 2016 are as follows:

- On 21 December 2016, the Group obtained a credit line for 60 months amounting to MNT 6 billion bearing interest rate of 8%. As at 31 December 2017, the Group had withdrawn an amount of MNT 3,923,160 thousand (31 December 2016:2,076,840 thousand). The credit line will be paid in monthly installments of MNT 170 million scheduled to start on 31 January 2020 and are due to be fully repaid on 21 December 2021 and is secured by buildings and land of the Group.
- The Group obtained working capital loans in the amounts of MNT 10 billion in 2012 and MNT 10 billion in 2011 bearing interest rates of 6% and 7% per annum respectively. The Group obtained additional loans in 2015 amounting to MNT 10 billion and MNT 5 billion bearing an interest rate of 9% per annum for each loan. These loans were issued as part of the implementation of the Government's program to support domestic cashmere processing companies. The loans obtained in 2012 and 2011 have been fully repaid in 2016. The remaining loans will be paid in monthly installments of MNT 10 million and the loans will be fully repaid in December 2019. The loans are secured by buildings and lands of the Group.
- On 28 March 2016, the Group obtained a loan for an amount of MNT 7.6 billion bearing an interest rate of 8% per annum for working capital needs of the Group. The loan were fully repaid in December 2017 and is secured by the sales revenue, trade receivables, raw material, building under construction and inventory of the Group.

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13. Borrowings (cont'd)

13.1 Summary of borrowing arrangements (cont'd)

(vi) On 8 September 2016 and 13 September 2016, the Group obtained loans from Khan bank of Mongolia in the amounts of JPY 4,560,000 (MNT 96,626 thousand) and USD 19,803 (MNT 49,301 thousand) bearing interest rates of 7.12% and 8.65% per annum respectively in order to finance purchases of property, plant and equipment. The loans were fully repaid in September 2017. The loans were is secured by buildings and lands of the Group.

13.2 Reconciliation of liabilities arising from financing activities

	Opening balance	Financing cash flows		Exchange differences	Other changes (i)	Closing balance
		Inflow	Outflow			
Bank loans (note 13)	43,514,943	100,162,894	(74,023,755)	704,404	313,327	70,671,813
Loans from related parties(note 23.2)	-	17,046,070	(17,046,070)	-	-	-
	43,514,943	**117,208,964**	**(91,069,825)**	**704,404**	**313,327**	**70,671,813**

(i) Other changes include interest accruals

14. Share capital

	Number of shares		Share capital	
	2017	2016	2017	2016
Balance at beginning and end of the year	**7,801,125**	**7,801,125**	**780,113**	**780,113**

The share capital as of 31 December 2017 and 2016 amounting to MNT 780,112.5 thousand and consists of 7,801,125 authorized and issued common shares at par value of MNT 100.

The Group is registered with the State Registration Agency and was issued a State Registration No. 2076357.

15. Dividend

	2017	2016
Dividend payable, beginning balance	291,394	171,932
Declared dividend	1,560,225	1,092,157
Payment of dividend	(1,681,761)	(972,695)
Dividend payable ending, balance	**169,858**	**291,394**

By Resolution of the Board of Directors dated 10 February 2017, the Group declared dividends amounting to MNT 200 per share and totalling to MNT 1,560,225 thousand (2016: MNT 140 per share and totalling to MNT 1,092,157 thousand).

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16. Earnings per share

	2017	2016
Net profit for the year (in MNT'000)	17,502,984	16,138,904
Weighted average number of ordinary shares	7,801,125	7,801,125
Earnings per share (in MNT'000)	**2.24**	**2.07**

There were no dilutive potential ordinary shares outstanding during the year (2016: Nil).

Basic earnings per share are calculated by dividing the Group's profit by the weighted average of shares outstanding during the year. To calculate diluted earnings per share, the weighted average of shares outstanding is adjusted by assuming the conversion of all potential shares with dilutive effect. Likewise, net profit is adjusted to consider the effects (net of taxes) of conversion.
Diluted earnings per share coincide \with basic earnings per share because there are no outstanding shares or options other than ordinary shares.

17. Revaluation surplus

	2017	2016
Balance at beginning of year	15,647,697	13,370,979
Increase arising on revaluation of properties (note 9)	-	2,276,718
Balance at end of year	**15,647,697**	**15,647,697**

18. Foreign currency translation reserve

	2017	2016
Balance at beginning of year	-	-
Exchange differences arising on translating the net assets of foreign subsidiaries	(28,274)	-
Balance at end of year	**(28,274)**	**-**

19. Income tax expense

	2017	2016
Current tax:		
Current tax expense in respect of the current year	6,087,201	4,722,867
Deferred tax:		
Deferred tax (benefit)/expense recognized in the current year	(147,924)	273,729
	5,939,277	**4,996,596**

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(IN THOUSANDS OF MONGOLIAN TOGROGS)

19 Income tax expense (cont'd)

19.1 Current tax

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

	2017	2016
Accounting income before taxation	23,442,261	21,135,500
Income tax expense at statutory rate of 25% based on net profit before taxation	5,860,565	5,283,875
Effect of incomes that are non-taxable	(42,477)	(109,580)
Effect of expenses that are non-deductible	418,203	531,456
Effect of interest income subject to flat 10% rate	(91,014)	(259,155)
Effect of previously unrecognised and temporary differences now recognised as deferred tax liabilities	8,035	-
Effect of unused tax losses of the subsidiaries not recognised as deferred tax assets	235,965	-
Effect of lower tax rate on profit below MNT 3 billion (10%)	(450,000)	(450,000)
Income tax expense	**5,939,277**	**4,996,596**

The tax rate used for the 2017 and 2016 reconciliations above is the corporate tax rate of 25% payable by corporate entities in Mongolia on taxable profits in excess of MNT 3 billion (10% on the taxable profit of up to MNT 3 billion) in accordance with the Economic entities income tax law.

19.2 Current tax liabilities

	2017	2016
Balance at beginning of the year	2,196,930	508,123
Current tax expense for the year	6,087,201	4,722,867
Payments for income tax	(6,312,721)	(3,034,060)
Corporate income tax payable	**1,971,410**	**2,196,930**

19.3 Deferred tax balances

Deferred tax assets/(liabilities) were recognized for deductible or taxable timing differences resulting from the unrealised exchange differences arising from monetary assets and liabilities.

2017	**Opening balance**	**Recognized in profit or (loss)**	**Closing balance**
Deferred tax liabilities in relation to:			
Accounts and other receivables	(68,344)	23,897	(44,447)
Property, plant equipment	-	(32,141)	(32,141)
Accounts and other payables	2,885	(12,479)	(9,594)
Borrowings (unrealized foreign currency losses)	1,466	168,647	170,113
	(63,993)	**147,924**	**83,931**

19 Income tax expense (cont'd)

19.3 Deferred tax balances (Cont'd)

2016	**Opening balance**	**Recognized in profit or (loss)**	**Closing balance**
Deferred tax assets in relation to:			
Accounts and other receivables	(435)	(67,909)	(68,344)
Accounts and other payables	-	2,885	2,885
Borrowings	210,171	(208,705)	1,466
	209,736	**(273,729)**	**(63,993)**

No deferred tax assets have been recognized in respect of the remaining unused tax loss of MNT 1,145 thousand (2016: 202 thousand) as at December 31, 2017 since there is no predictable future profit streams for set-off. Tax losses will expire in 2019.

20. Revenue and expenses

20.1 Revenue

	2017	2016
Sales of knitwear	67,101,195	53,185,475
Sales of woven	27,469,670	19,727,685
Sales of sewn	26,462,796	12,850,884
Service income	579,078	643,246
Others	2,812,368	2,266,378
	124,425,107	**88,673,668**

20.2 Cost of Sales

	2017	2016
Knitwear	40,231,861	31,817,005
Woven	14,304,438	10,567,077
Sewn	16,855,492	7,957,677
Cost of service	449,019	486,847
Other	2,039,840	1,625,982
	73,880,650	**52,454,588**

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20. Revenue and expenses (cont'd)

20.3 Expense by nature

	2017	2016
Changes in finished goods, work in progress, consumables and goods in transit	(24,917,169)	(8,206,241)
Raw materials used	71,864,481	41,629,138
Salaries and related costs	24,114,521	16,161,064
Depreciation and amortization (note 9 and 11.1)	5,633,556	4,535,367
Customer promotion expenses	3,970,629	2,149,619
Utility expenses	2,648,543	2,363,488
Advertisement expenses	1,748,725	1,473,321
Labor safety expenses	1,580,310	1,143,067
Supplies and consumables	1,473,015	1,059,189
Bank charges	1,368,564	934,885
Rental expense	1,077,970	488,131
Business trips	873,578	787,588
Repairs and maintenances	584,750	385,022
Insurance expenses	524,135	314,108
Fuel	345,634	316,960
Security expenses	259,834	195,702
HR and related costs	259,452	472,055
Professional service fees	156,464	88,946
Communication expenses	104,474	42,313
Other expenses	1,091,560	982,373
Total cost of sales, selling and marketing expenses and general and administrative expenses	**94,763,026**	**67,316,095**

21. Finance and other income

	2017	2016
Interest income	606,757	1,727,698
Rental and other income	242,059	186,769
	848,816	**1,914,467**

22. Other gains and (losses)

	2017	2016
Net foreign exchange (losses)/gains	(774,419)	2,175,680
Gain on compensation from insurance reimbursement in excess of property plant and equipment written off and inventory written down	383,784	-
Loss on disposal of property, plant and equipment, net	(181,228)	(140,720)
	(571,863)	**2,034,960**

In June 2017 Gobi JSC's factory complex's entire roof burned during the maintenance work which was carried out by a third party. In relation to the fire the Company received as reimbursement MNT 4,400 million from the insurance companies. A total damage of MNT 4,016 million (MNT 3,253 million in relation to the building and MNT 763 million in relation to damaged raw material) has been recognised in the current year as property plant equipment write off and inventory write down.

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23. Balances and transactions with related parties

23.1 Balances with related parties

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

	2017	2016
Trade receivable from the parent	7,909	-
Non-trade receivable from the parent	-	14,000,000
Trade receivable from other related parties (fellow subsidiaries)	500	2,010
	8,409	**14,002,010**

23.2 Transactions with related parties

The following transactions are incurred with the parent:

	2017	2016
Advances provided to the parent	11,005,592	22,300,000
Collection of advances provided to the parent	25,010,400	15,697,789
Advances received from parent (note 13.2)	2,066,070	-
Payments of advances received from the parent (note 13.2)	2,066,070	-
Interest income from the parent	316,715	830,249
Purchases made from the parent	72,722	132,169
Sales made to the parent	17,993	3,230
Interest expense to the parent	868	-

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

	2017	2016
Advances provided to related parties (fellow subsidiaries)	424,888	-
Collection of advances provided to related parties (fellow subsidiaries)	420,080	-
Advances received from the related parties (fellow subsidiaries – note 13.2)	14,980,000	-
Payments of advances received from the related parties (fellow subsidiaries – note 13.2)	14,980,000	-
Interest income from the related parties (fellow subsidiaries)	5,407	-
Purchases made from other related parties (fellow subsidiaries)	1,423,141	980,607
Sales made to other related parties (fellow subsidiaries)	245,830	91,501
Rental income from other related parties (fellow subsidiaries)	144,608	96,363
Interest expense to the parent	498,660	-

All transactions with related parties are at mutually agreed terms.

The receivable from the parent as at 31 December 2016 related to unsecured and short term advances given to the parent company bearing interest rate of 14% per annum that were collected during the first quarter 2017. The receivable from the parent as at 31 December 2017 related to an advance given in relation to a purchase of supply material. The credit term on purchases and sales is 30 days and the date of payment is specifically agreed in the purchase agreement. No interest is charged on these sales and purchases. None of the balance is secured, no expense has been recognized in the current or prior year for bad or doubtful debts is respect of amounts owed by related parties.

23. Balances and transactions with related parties (cont'd)

23.3 Compensation of key management personnel

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

	2017	2016
Short-term benefits	1,142,619	807,231

Remuneration of the Group's directors included salaries and bonuses.

23. Financial instruments and financial risk management objectives

The Group's principal financial instruments comprise of cash in banks, accounts and other receivables, accounts and other payables and borrowings and available for sale investments.

Categories of financial instruments:

	2017	2016
Financial assets:		
Loans and receivables	18,827,961	22,335,658
Available for sale investments	9,000	9,000
Financial liabilities:		
Amortised cost	73,144,695	45,429,580

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group does not invest in financial instruments for trading or hedging purposes.

The Group is exposed to financial risks such as market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Group's policies and objective in managing these risks are summarized below:

24.1 Credit risk management

Credit risk refers to the risk that counter-party will default on its contractual obligations resulting in financial loss to the Group.

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 providing credits within the pre-approved credit limits. Annual sales contract is concluded with the customers and renewed annually and the contract compliance is continuously monitored.

Credit risk as of 31 December 2017 and 2016 are as follows:

	Carrying value	
	2017	**2016**
Cash in banks and cash equivalents	6,897,211	2,410,937
Accounts receivable	10,922,036	5,326,157
Receivables from related parties	8,409	14,002,010
Other receivables	713,754	393,221
	18,541,410	**22,132,325**

Five largest customers account for 29% of the total balance of accounts receivables (31 December 2016: 45%).

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24. Financial instruments and financial risk management objectives (cont'd)

24.1 Credit risk management (cont'd)

The credit risk is concentrated on amounts due from third parties. Management monitors the settlement of the amounts and ensure that they are timely repaid.

Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased. The Group also requires full payment of any outstanding amounts upon fulfilling the next orders from the customers. The Group does not have financial guarantee to third parties.

The Group does not hold collateral as security for the accounts and advances and other receivables as of the end of the reporting period.

24.2 Liquidity risk management

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

Ultimate responsibility for liquidity risk management rests with the Board of Management of the Group, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring 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 can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate	On demand and less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total	Carrying amount
31 December 2017							
Non-interest bearing	-	181,652	416,587	1,874,643		2,472,882	2,472,882
Variable interest rate instruments	7.35%	89,255	178,511	803,298	16,704,907	17,775,971	14,562,780
Fixed interest rate instruments	8.07%	2,491,540	4,525,207	36,072,672	17,447,632	60,537,051	56,109,033
		2,762,447	**5,120,305**	**38,750,613**	**34,152,539**	**80,785,904**	**73,144,695**

	Weighted average effective interest rate	On demand and less than 1 month	1-3 months	3 months to 1 year	1-5 years	Total	Carrying amount
31 December 2016							
Non-interest bearing	-	1,860,873	105,810	74,888	-	2,041,571	2,041,571
Fixed interest rate instruments	8.51%	324,823	618,961	34,329,741	14,362,414	49,635,939	43,388,009
		2,185,696	**724,771**	**34,404,629**	**14,362,414**	**51,677,510**	**45,429,580**

(IN THOUSANDS OF MONGOLIAN TOGROGS)

24. Financial instruments and financial risk management objectives (cont'd)

24.3 Market risk

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

24.3.1 Interest rate risk management

The Group is exposed to interest rate risk because the entities in the Group borrow funds at both fixed and floating interest rates. The cash flow interest rate risk arises from variable 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 between fixed and floating rate borrowings. The Group does not use hedging instruments to manage interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities in 2017, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2017 would decrease/increase by MNT 148,047 thousand. This is mainly attributable to the Group's exposure to interest rates on its variable borrowings.
In the opinion of management of the Group, the expected change in interest rate will not have impact on the interest income on pledged bank deposits and bank balances, hence sensitivity analysis is not presented.

24.3.2 Foreign currency risk management

The Group incurs foreign currency risk on purchases and payments denominated in a currency other than MNT. The Group does not manage these exposures with foreign currency derivative products.

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

	2017		**2016**	
	Liabilities	**Assets**	**Liabilities**	**Assets**
Foreign currency denominated	56,053,123	16,719,458	3,682,647	5,464,545

Foreign currency sensitivity analysis

The Group is mainly exposed to USD, JPY and EURO (together referred to as "the foreign currencies"). The following table details the Group's sensitivity to a 10% increase and 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.
A 10 percent strengthening of MNT against foreign currencies held by the Group as at the date of the consolidated statement of financial position would increase profit after tax by the amount shown below. This analysis assumes all other risk variables remained constant.

24. Financial instruments and financial risk management objectives (cont'd)

24.3.2 Foreign currency risk management (cont'd)

	2017	**2016**
Effect on profit/(loss) after tax	3,933,367	(133,642)

A 10 percent 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 remained constant.

24.4 Fair values of financial instruments

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

Level 1: Fair value is based on quoted prices in active markets for identical assets or liabilities

Level 2: The inputs used for fair value measurement are market observable inputs other than those quoted prices included within level 1, either directly or indirectly.

Level 3: Valuation techniques are used to estimate fair value of which significant inputs are not based on observable market data.

The Group determines fair values for these financial instruments which are not carried at fair value in the consolidated financial statements as follows:

(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 amount approximate to their respective fair value.

(ii) Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost basis are estimated by comparing market interest rates when they were first recognized with the current market rates offered for the similar financial instruments available in Mongolia.

The Group's financial instruments consist of loans and receivables and other financial liabilities carried at amortized cost.
The management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

25. Segment information

Information reported to the executive director, being the Chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of sales delivered or provided, in respect of the 'Domestic sales' and 'Export sales' operations by line of products and cost of sales to provide a gross margin analysis. No operating segments have been aggregated in arriving at the reportable segments of the Group.

Other than Revenue and Cost of sales no revenue and expenses are allocated to a segment.

No analysis of segment assets and liabilities are presented as it is not regularly reviewed by the Group's chief operating decision maker.

25. Segment information (cont'd)

25.1 Segment revenue and results

		Segment revenue		Segment profit	
		2017	**2016**	**2017**	**2016**
Domestic sales:	Knitwear	36,168,748	29,826,976	17,195,336	12,668,728
	Woven	16,961,159	10,931,572	9,025,330	5,933,953
	Sewn	19,130,964	11,061,551	7,110,274	4,138,212
	Service income	579,078	643,246	130,059	156,399
	Other	1,723,963	1,674,884	35,716	425,907
		74,563,912	54,138,229	33,496,715	23,323,199
Export sales:	Knitwear	30,932,446	23,358,499	9,673,997	8,699,742
	Woven	10,508,511	8,796,113	4,139,902	3,226,655
	Sewn	7,331,832	1,789,333	2,497,030	754,995
	Other	1,088,406	591,494	736,813	214,489
		49,861,195	34,535,439	17,047,742	12,895,881
		124,425,107	**88,673,668**	**50,544,457**	**36,219,080**
Finance and other income				848,816	1,914,467
Other (losses) and gains				(571,863)	2,034,960
Interest expense				(6,496,773)	(4,171,500)
Selling and marketing expenses				(12,121,296)	(8,169,197)
General and administrative expenses				(8,761,080)	(6,692,310)
Profit before taxation				**23,442,261**	**21,135,500**

No single customers contributed 10% or more to the Group's revenue for both 2017 and 2016.

25.2 Geographical information

The Group sells cashmere goods in different geographical areas as detailed below:

	Revenue from external customers	
	2017	**2016**
Mongolia	74,563,912	54,138,229
Europe	15,147,459	15,054,922
Asia Pacific	26,724,390	13,029,936
Russia	4,605,257	3,915,589
North America	3,358,738	2,506,728
Oceania	25,351	28,264
	124,425,107	**88,673,668**

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26. Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2016.

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.

27. Commitments for expenditure

	2017	**2016**
Commitments for the acquisition of property, plant and equipment	150,541	-

28. Operating lease arrangements

28.1 The Group as lessee

As at 31 December 2017 and 2016 the Group did not have any long-term non-cancellable operating leases, but annual operating leases, which can be cancelled under relatively short notice. Thus, management believes that the amount of the future minimum lease payments under non-cancellable operating lease is not material.

Payments recognised as an expense:

	2017	**2016**
Minimum lease payments	1,077,970	488,131

28.2 The Group as lessor

As at 31 December 2017 and 2016 the Group did not have any long-term non-cancellable operating leases as lessor. The Group has 12 months non-cancellable property lease contracts with its related parties. These lease contracts include a clause for a renewal option with initial lease term or 12 months unless a proposal to terminate these leases are made by either lessee or lessor.

The lessee does not have an option to purchase the buildings at the expiry of the lease period.

Future minimum lease payments under non-cancellable operating leases as at 31 December 2017 are as follows:

	2017	**2016**
Not more than 1 year	121,336	96,363
	121,336	**96,363**

(IN THOUSANDS OF MONGOLIAN TOGROGS)

29. Reclassification

The Group reclassified certain amounts in the consolidated financial statements for the year ended 31 December 2016 to conform to the current year's classification, as following:

	As previously reported	Reclassification	As reclassified
Accounts and other receivables (i), (ii)	19,519,521	201,867	19,721,388
Prepayments and advances (i)	2,719,652	(261,947)	2,457,705
Other non-current assets (ii)	245,742	60,080	305,822

(i) VAT receivable was previously classified as prepayments and advances.
(ii) Deposit places for lease stores was previously classified as accounts and other receivables.

In the opinion of the directors the Company, the reclassification made in the comparative figures have insignificant impact to the Group's consolidated statements of financial position as at 1 January 2016, accordingly the opening consolidated statement of financial position is not presented. There were no other reclassification or adjustments required on the comparative figures.

30. Events after the reporting periods

By Resolution of the Board of Directors dated on 2 February 2018, the Group declared dividends amounting to MNT 220 per share (MNT 1,716,247 thousand). Other than this there have been no other significant events subsequent to the balance sheet date requiring disclosure in the consolidated financial statements.

GOBI

MONGOLIAN CASHMERE

GOBI JSC AND ITS SUBSIDIARIES

TRANSACTIONS WITH RELATED PARTIES

31 DECEMBER 2017

Deloitte.

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9 March 2018

Gobi JSC
Gobi JSC Building
Khan-Uul district, 3rd khoroo
Ulaanbaatar, Mongolia

Report

We are of the opinion that agreements made with related parties in the current reporting period are at market terms based on our audit of the consolidated financial statements of Gobi JSC ("the Company") and its subsidiaries for the year ended 31 December 2017.

Balances and transaction with related parties are shown in Appendix 1.

Norjinbat Shagdarsuren
Director, CPA
Deloitte Onch Audit LLC
9 March 2018

DELOITTE AUDIT LLC

Deloitte.

1. Balances and transactions with related parties

1.1 Balances with related parties

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

	2017	2016
Trade receivable from the parent	7,909	-
Non-trade receivable from the parent	-	14,000,000
Trade receivable from other related parties (fellow subsidiaries)	500	2,010
	8,409	**14,002,010**

1.2 Transactions with related parties

The following transactions are incurred with the parent:

	2017	2016
Advances provided to the parent	11,005,592	22,300,000
Collection of advances provided to the parent	25,010,400	15,697,789
Advances received from parent	2,066,070	-
Payments of advances received from the parent	2,066,070	-
Interest income from the parent	316,715	830,249
Purchases made from the parent	72,722	132,169
Sales made to the parent	17,993	3,230
Interest expense to the parent	868	-

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

	2017	2016
Advances provided to related parties (fellow subsidiaries)	424,888	-
Collection of advances provided to related parties (fellow subsidiaries)	420,080	-
Advances received from the related parties (fellow subsidiaries)	14,980,000	-
Payments of advances received from the related parties (fellow subsidiaries)	14,980,000	-
Interest income from the related parties (fellow subsidiaries)	5,407	-
Purchases made from other related parties (fellow subsidiaries)	1,423,141	980,607
Sales made to other related parties (fellow subsidiaries)	245,830	91,501
Rental income from other related parties (fellow subsidiaries)	144,608	96,363
Interest expense to the parent	498,660	-

All transactions with related parties are at mutually agreed terms.

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1.3 Compensation of key management personnel

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

	2017	2016
Short-term benefits	1,142,619	807,231

DOMESTIC STORES LOCATION

ҮЙЛДВЭРИЙН ДЭРГЭДЭХ ТӨВ ДЭЛГҮҮР
Улаанбаатар хот, Хан-Уул дүүрэг, Чингисийн өргөн чөлөө, Үйлдвэрийн гудамж
Утас: 7004 8888

ПАЛЬТО ХАУС ДЭЛГҮҮР
Улаанбаатар хот, Сүхбаатар дүүрэг, Чингисийн өргөн чөлөө-3, Төв номын сангийн хойд талд
(хуучнаар Бамбарууш кафе)
Утас: 7004 8888

УЛСЫН ИХ ДЭЛГҮҮР ДЭХ САЛБАР
УБ хот, Сүхбаатар дүүрэг, 1-р хороо, Улсын их дэлгүүр 2-р давхарт
Утас: 7004 8888

ШАНГРИ-ЛА САЛБАР ДЭЛГҮҮР
Улаанбаатар хот, Сүхбаатар дүүрэг, 1-р хороо,
Олимпийн гудамж 19 А, Шангри-Ла Төв,
Утас: 7004 8888

ХЯМДРАЛЫН ДЭЛГҮҮР
Улаанбаатар хот, Хан-Уул дүүрэг, Чингисийн өргөн чөлөө, Үйлдвэрийн гудамж
(Үйлдвэрийн Дэргэдэх Төв Дэлгүүрийн хажууд), Утас: 7004 8888

СМАРТ САЛБАР
Улаанбаатар хот, Баянгол дүүрэг, Өргөө кино театрын урд талд, Smart худалдааны төвийн 1 давхарт; Утас: 7004 8888

ӨРГӨӨ ЗОЧИД БУУДАЛ ДАХЬ САЛБАР
Улаанбаатар хот, Чингэлтэй дүүрэг, Жуулчны гудамж Утас: 99272398

ДАРХАН ХОТ ДАХЬ САЛБАР
Дархан хот, Шинэ Дархан Олон Улсын Худалдааны Төв
Утас: 95056656, 99376775

КАШМИР ХАУС ГЭРЭЭТ БОРЛУУЛАГЧ
Улаанбаатар, Чингэлтэй дүүрэг, Энхтайваны өргөн чөлөө
ОХУ-ын элчин сайдын яамны зүүн хойно
Утас: 11 326867

ЧИНГИС ХААН ОЛОН УЛСЫН НИСЭХ БУУДАЛ САЛБАР ДЭЛГҮҮР
Чингис хаан олон улсын нисэх буудал дахь зорчин явагчдын танхимд

GOBI FACTORY STORE
Industrial street, 3rd khoroo Khan-Uul district, Ulaanbaatar
Tel: 7004 8888

MONGOLIAN CASHMERE COAT HOUSE
North of The National Library of Mongolia,
Chinggis Avenue-3 Sukhbaatar district, Ulaanbaatar (known as "Bambaruush Cafe")
Tel: 7004 8888

STATE DEPARTMENT STORE BRANCH
3rd floor, at State Department Store, 1st khoroo, Sukhbaatar District, Ulaanbaatar Mongolia

SHANGRI-LA STORE
Shangri-La Centre, 19A Olympic Street, Sukhbaatar District-1, Ulaanbaatar Mongolia
Tel: 7004 8888

GOBI OUTLET STORE
Industrial street, 3rd khoroo, Khan-Uul district, Ulaanbaatar (Besides Gobi Factory store)
Tel: 7004 8888

SMART STORE
1st floor at Smart outlet store in front to Urgoo Cinema, Bayangol district, Ulaanbaatar
Tel: 7004 8888

URGOO HOTEL BRANCH
#6, Apartment M100, Tourist street, 1st khoroo
Chingeltei district, Ulaanbaatar
Tel: 99272398

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

CASHMERE HOUSE
Northeast Embassy of Russia
Peace's Avenue, Chingeltei district, Ulaanbaatar
Tel: 11 326867

CHINGGIS KHAAN INTERNATIONAL AIRPORT BRANCH
at departure hall in Chinggis Khaan International Airport

INTERNATIONAL STORES LOCATION

BRANCH STORES

BERLIN, GERMANY
GOBI MONGOLIAN CASHMERE
Knesebeckstr.30, Berlin, Germany
www.shop-gobi.com
+49 (0)30 224 66510

HAMBURG, GERMANY
GOBI MONGOLIAN CASHMERE
Galleria Hamburg, Große Bleichen 21,20354 Hamburg, Germany
+49(0)30 244 665 10

BRUSSELS, BELGIUM
GOBI MONGOLIAN CASHMERE
1251B chaussee de waterloo, 1180 uccle, Brussels
+32 (0)28505944

TOKYO , JAPAN
Haneda Airport , 1 Terminal, Market place 4F

ERLIAN, INNER MONGOLIA, CHINA
Department store, 2nd floor, MinMao, Erlian
+86-18747458506

FRANCHISE STORES

ASIA

ANKARA, TURKEY
GOBI CASHMERE
Armada 1, 1.kat No:136, Eskişehir Yolu No:6 06560 Söğütözü
Tel: +90 (312) 219 16 01-02,
Fax: +90 (312) 219 16 03
Email: info@gobi.com.tr,
Web: www.gobi.com.tr

ALMATY, KAZAKHSTAN
ГОБИ
Проспект Абылай Хана 62, Алма-Ата
+772 731 17035

ASTANA, KAZAKHSTAN
ЛЮКС КАШЕМИР
Улица Бейбитшипик, 9, ТЦ "Sine Tempore" (ЦУМ), 2 этаж, бутик 52/1, Астана
+771 727 53952

ERLIAN, INNER MONGOLIA, CHINA
No.010112 Quanjin Road Xilin street, Erlian haote, Inner Mongolia, China

HONG KONG, CHINA
GOBI MONGOLIAN CASHMERE
RM 18-20, 17/F, Horizon Plaza, 2Lee Wing street, Ap Lei Chau, Hong Kong, China
+852 2730 3911

ULANHOT, INNER MONGOLIA, CHINA
GOBI MONGOLIAN CASHMERE
New century square, 42-11, Wulanhaote city, Inner Mongolia, China
+86 13224831888; +86 15004831188
+86 482 8257333

FUJIAN, CHINA
GOBI MONGOLIAN CASHMERE
18th floor D1, Shi Chuang Plaza, Ma Wei Free Trade Area,
Fujian Province, China

SHANGHAI, CHINA
GOBI MONGOLIAN CASHMERE
Shanghai, New World Department Store, No.2-88, Nanjing west road, Huangpu district.
+86 18800337221

Shanghai New World Daiwan No.228 Nanjing east road, Huangpu district.
+86 18800337221

MANZHOULI, CHINA
GOBI MONGOLIAN CASHMERE
China and Russian Duty Free trade zone B Hall, M203, Manzhouli, China

SEOUL, KOREA
GOBI KOREA
Room 201, Jinsung B/D, Abujungro 4 gil 13-9,
Gangnam-gu, Seoul, Korea
+02 518 0525

DEAGU, KOREA
GOBI KOREA
DEBEC PLAZA
333, Myeongdeok-ro, Jung-gu, Daegu, Republic of Korea

EUROPE

DÜSSELDORF, GERMANY
GOBI
Königsallee 60, 40212 Düsseldorf, Germany

PRAGUE, CZECH
GOBI KAŠMÍR
696 63 Hroznova Lhota 368, Praha 1
+42 (0) 702 065 696
www.kasmir.cz

PRAGUE, CZECH
GOBI KAŠMÍR
699/3, 110 00 Nové Město, Praha 1
+42 (0) 722 066 591
www.kasmir.cz

NORTH AMERICA

WASHINGTON, USA
T & U MONGOLIAN CASHMERE
1663 Wisconsin Ave NW, Washington, USA

RUSSIA

MOSCOW, RUSSIA
МАГАЗИН ЖЕТЕМ
Москва, ул. Красного Маяка д. 2Б, ТРЦ "Пражский Пассаж", 2 этаж, у эскапатора
+4 957 218 220

MOSCOW, RUSSIA
МАГАЗИН ЖЕТЕМ
Москва, ул.1-я Останкинская д.53, ТК "Рапира XXI" 2 этаж, пав. 35 Г
+4 956 096 818

MOSCOW, RUSSIA
МАГАЗИН ЖЕТЕМ
г. Сочи, курорт "Роза Хутор", набережная Панорама д. 1

MOSCOW, RUSSIA
МАГАЗИН ЖЕТЕМ
Долгопрудный, Лихачовский пр-т, д. 64, ТЦ "Конфитюр" магазин, пав. 36,
+4 987 251 156

MOSCOW, RUSSIA
МАГАЗИН ЖЕТЕМ
м. Семеновская, Семеновская площадь, д. 1, ТРЦ "Семеновский" павильон 226

KHIMKI, RUSSIA
МАГАЗИН ЖЕТЕМ
ТЦ "Лига", ш. Ленинградское, вл. 5, Химки, Московская обл., Россия, 125080

MOSCOW, RUSSIA
МАГАЗИНЫ МИР КАШЕМИРА
Москва, м. Коньково, ул.Профсоюзная, д.126, кор. 2, магазин 114, "Коньково-пассаж"
+7 495 229 3314

MOSCOW, RUSSIA
МАГАЗИНЫ МИР КАШЕМИРА
Москва, м. Теплый Стан, Новоясеневский проспект, д. 1, ТРЦ "Спектр", 1 этаж
+7 499 550 9374

MOSCOW, RUSSIA
МАГАЗИНЫ МИР КАШЕМИРА
Москва, м. Калужская, ул. Профсоюзная, д. 61А, ТРЦ "Калужский" 1 этаж
+7 499 550 0198

MOSCOW, RUSSIA
МАГАЗИНЫ МИР КАШЕМИРА
Москва, м. Ясенево, Новоясеневский проспект, д. 11, ТРЦ "Золотой Вавилон" 2 этаж
+7 499 963 5227

MOSCOW, RUSSIA
МАГАЗИНЫ МИР КАШЕМИРА
Москва, м. Тульская, ул. Большая Тульская, д. 13, ТРЦ «Ереван Плаза» 2 этаж
+7 495 926 11 57

MOSCOW, RUSSIA
МАГАЗИНЫ МИР КАШЕМИРА
Москва, м. Тверская, ул. Тверская, д. 28, ТЦ «Иван Плаза», 1 этаж
+7 499 530 15 01

MOSCOW, RUSSIA
КАШЕМИР МОНГОЛИИ
Москва, ТЦ "Золотой Вавилон", г. Москва, м. Отрадное, ул. Декабристов, д. 12, 1 этаж
+7 499 650 8349

MOSCOW, RUSSIA
КАШЕМИР МОНГОЛИИ
Москва, м. Ленинский проспект,
Ленинский проспект, д. 34/1
+7 499 135 0081

MOSCOW, RUSSIA
КАШЕМИР МОНГОЛИИ
Москва, м.Академическая, ул. Профсоюзная,
д.16/10, 1 этаж (вход со стороны ул. Кедрова)
+7 499 530 15 01

MOSCOW, RUSSIA
МАГАЗИНЫ WOOLSPIRIT
WOOLSPIRIT
М. Китай-Город ул. Маросейка, 13, вход с Лубянского проезда

MOSCOW, RUSSIA
WOOLSPIRIT
Москва, м. Маяковская,
4-я Тверская-Ямская ул., д. 23, стр.1
+7 499 250 5116

MOSCOW, RUSSIA
WOOLSPIRIT
Москва, М. Пушкинская, Чеховская, Страстной бульвар, д. 12, стр. 1
+7 495 210 0274

MOSCOW, RUSSIA
WOOLSPIRIT
Москва, м. Смоленская (Арбатско-Покровская линия)
Москва, Троилинский пер., дом 3,
БЦ"Смоленка", 3 этаж (на лифте) офис 303
+7 916 630 8595

MOSCOW, RUSSIA
WOOLSPIRIT
Мосъва, м. Кузнецкий Мост, Москва,
Рождественка 5/7 стр. 1, 2 этаж
+7 495 625 9532

MOSCOW, RUSSIA
WOOLSPIRIT
Москва, м. Баррикадная, ул Конюшская, д. 30
+7 499 252 4277

MOSCOW, RUSSIA
GOBI
Москва, м. Чистые пруды,
ул. Мясницкая, 19 "Чайный дом" 2 этаж
+7 495 784 0999

MOSCOW, RUSSIA
GOBI
Москва, м. Новокузнецкое-Третьяковское , Клементовский переулок, дом 6
+7 495 784 0999

KAZAN, TATARSTAN, RUSSIA
GOBI MONGOLIAN CASHMERE
ул.Н.Ершова, д.1А, ГРК "КОРСТОН", Казань, Татарстан, ОХУ

ULAN»UDE, RUSSIA
МАГАЗИНЫ КАШЕМИР ХАУС
Улан-Удэ, Торговый Центр "Столичный", 2 этаж
+7 964 414 78 88

IRKUTSK, RUSSIA
МАГАЗИНЫ КАШЕМИР ХАУС
Иркутск, Ул.Советская 3, Деловой Центр, остановка театр кукоп
+7 952 629 29 84

NOVOSIBIRSK, RUSSIA
МАГАЗИН "GOBI"
Новосибирск, ул. Вокзальная тагисраль 10/1 Торговый центр " Бонанза"
+7 913 001 66 21

OMSK, RUSSIA
МАГАЗИН "GOBI"
Омск, ТВЦ"Каскад, ул.Карла Маркса 24, 1 этаж, бутик 11
+7 905 097 01 10

KHABAROVSK, RUSSIA
МАГАЗИН "GOBI"
Хабаровск, ул. Муравьева-Амурского, стр.7, 3 этаж
+8 914 158 77 06

SAINT PETERBURG, RUSSIA
МАГАЗИН "GOBI"
Санкт-Петербург, Лиговский пр., 30А,
ТЦ Галерея (2 этаж)
+7 921 321 32 68

YEKATERINBURG, RUSSIA
МАГАЗИН ЭКЗОТИЧЕСКИЙ ТРИКОТАЖ
Екатеринбург, Пр. Ленина 50, ТК "СитиЦентр"
+7 343 291 0097

YEKATERINBURG, RUSSIA
МАГАЗИН ЭКЗОТИЧЕСКИЙ ТРИКОТАЖ
Екатеринбург, ул.Халтурина 55а, ТЦ "Карнавал",
2 эт., бутик B25
+7 343 310 1490

YEKATERINBURG, RUSSIA
МАГАЗИН ЭКЗОТИЧЕСКИЙ ТРИКОТАЖ
Екатеринбург, ул. Красноармейская, 78-а
+7 343 261 3457

YEKATERINBURG, RUSSIA
МАГАЗИН ЭКЗОТИЧЕСКИЙ ТРИКОТАЖ
Екатеринбург, ТЦ"БУМ", ул. Вайнера 19, 2 этаж
+7 343 376 4246

GOBI

MONGOLIAN CASHMERE

Gobi JSC building, Industrial street, 3rd sub-district,
Khan Uul district, Ulaanbaatar-17062, Mongolia.
PO box: 36/434

Phone: +976 7013-9977, Fax: +976 7014-3081
E-mail: info@gobi.mn