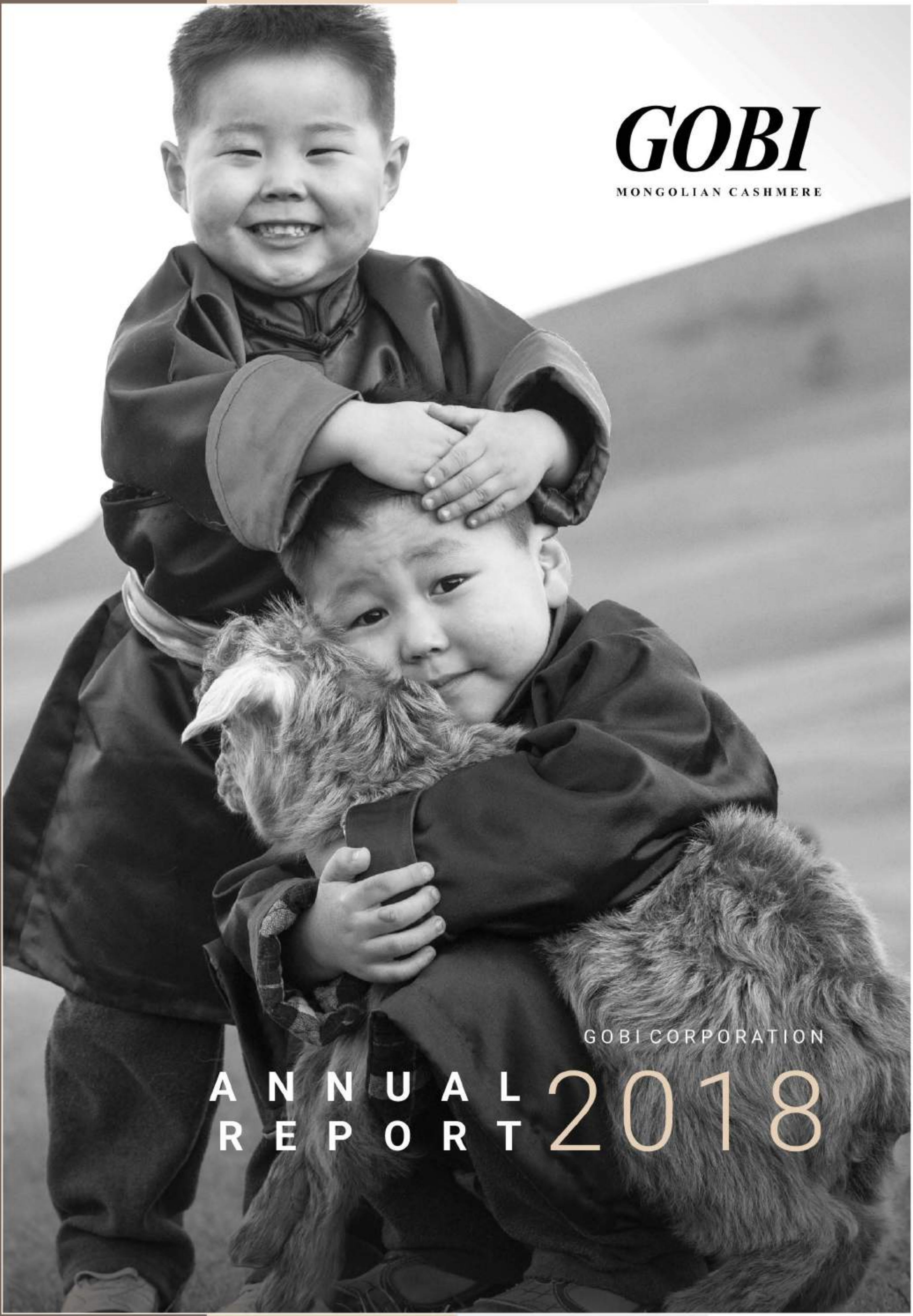

GOBI
MONGOLIAN CASHMERE

GOBI CORPORATION

ANNUAL REPORT 2018

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OUR **COMPANY**

OUR COMPANY

COMPANY INTRODUCTION

Company name	Gobi Corporation
Business Operations	Processing of goat cashmere and productions of finished goods and garments
Company address	Gobi Corporation building, Industrial street, 3rd khoroo, Khan-Uul district, Ulaanbaatar-17062, Mongolia. PO box: 36/434 Gobi Corporation 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 BOD: Gerelmaa Damba Chief Executive Officer: Baatarsaikhan Tsagaach
Founded in	5th of September 1981
Number of employees	2,113
Factory processing capacity (per annum)	Process 900 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 162,000 pieces of cashmere coats and jackets
Number of stores	Domestic stores Ulaanbaaatar 5 Darkhan 1 International stores Branch stores 5 Franchises 61

MISSION

Gobi Corporation'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 Mongolian 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.

OUR COMPANY

2008

The Gobi outlet store opens in close proximity to the factory in Ulaanbaatar. Famous Japanese designer Sako Keichiro 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

2018

The new mule spinning machine from Italy "Bigagli" was introduced in the spinning factory resulting in high quality yarns. All knitwear products were produced using yarns span with the mule spinning machine. Furthermore, mass production of cashmere blazers started which lead to the company being a top cashmere blazer producer in the world.

MESSAGE FROM THE CHAIRWOMAN OF THE BOARD OF DIRECTORS

Dear esteemed shareholders, I am pleased with extending my warm greetings to all of you.

The time has come again for us to report the results and achievements of the 2018 operation of Gobi Corporation as well as the improvements that need to be made in the future.

In the last year, by the virtue of the joint efforts of the Board of Directors, Executive Management Team, and employees, Gobi Corporation has been ranked as the "Best Corporation," which further strengthened its status as a significant national manufacturer that leads its own industry.

Our work has been guided by the principles of good governance with prioritization of high productivity, efficiency, and sustainable development strategy. Consequently, the company's market capitalization has reached 260.5 billion MNT, an increase of 43.5 percent compared to 2017 and our net profit was at 17.8 billion MNT. Moreover, our weighted average stock price per share has had a year-to-year growth of 61.4 percent.

The Board has decided to distribute dividend of 6.8 MNT per share to shareholders for a total of 5.3 billion MNT, an amount equal to 30 percent of the company's net profit. This reflects a threefold increase in dividend per share compared to the previous year.

As a consequence of our effort to expand our international market share, to improve the quality of our products, and to grow our business operations, in 2018 we've increased our sales by a total of 39 percent. The 2018 has been a year of enthusiasm and energy, a year when we were able to accomplish our goals and aspirations.

Taking this opportunity, I would like to express my sincere gratitude to the company's management team and to all the employees who worked hard to realize the goals we set out to accomplish in 2018.

I wish you all great success and well-being.

CHAIRWOMAN OF THE BOD
D.GERELMAA

GREETINGS FROM THE CHIEF EXECUTIVE OFFICER

Dear esteemed shareholders, customers, and business partners, it is my utmost pleasure to extend my sincere greetings to all of you.

Since its inception under the name "Gobi Combination" in 1981 as one of Mongolia's pioneer manufacturers, Gobi Corporation, with its motto "A globally renowned Mongolian brand", has been contributing significantly to the Mongolian economy and to the development of the nation's light industry. Hence, I must note that our company has been successfully operating for 38 years since its founding; and that in all these past years, our company's constant growth has made it a well-respected leading corporation in the nation. This has been due to the tireless efforts and hard work of each successive generation of managers, leaders, and employees.

While Gobi Corporation was first privatized in 2007 with total assets amounting to 27 billion MNT, it now has a total of 246 billion in assets with its an annual sales reaching 173 billion MNT. Having created 384 new jobs in the past year alone, the company has provided roughly 2,100 jobs in total. Moreover, Gobi pays nearly 28 billion MNT in taxes and fees annually to the Government of Mongolia, making it one of the largest national companies in the country.

We acquired and introduced the Italian Bigagli mule spinning machine in the spinning factory in 2018. As a result of this, all yarns used for the production of knitwear products are produced using the new mule spinning machine resulting in improved quality of the knitwear products. Moreover, not only did we accomplish our goal of leading the world in sales of cashmere coats, we have also introduced into our sewing factory the German and Turkish technology for mass production of cashmere jackets. This has allowed us to become a world leader in the production of cashmere jackets that satisfy quality and technology requirements and that are competitive in international markets. Furthermore, we are continuously searching for ways to develop and further sophisticate cashmere fabric and are pleased to inform you that we have begun to produce suits using the thinnest cashmere fabric.

In the last year, we have opened a new branch in "Galleria Ulaanbaatar", located on the left side of the Government House and started to provide world-class services to both foreign and domestic customers.

As the CEO of this company, I shall continue to work with the principle mission that is to maintain the leadership status of Gobi Corporation as the model company in the light manufacturing industry, a company that contributes to the growth of the national economy that is dedicated to the well-being of its customers, investors, and employees.

I wish all of you who have always supported our business a good fortune and incredible success in your future endeavors.

CEO
Ts.BAATARSAIKHAN

GOBI IN
2018

OUR ACHIEVEMENTS

TOP-100 ECONOMIC ENTITY

Gobi Corporation was ranked 23rd in the top 100 economic entities list that is organized annually by Mongolian Chamber of Commerce on April 27. Also, our company was ranked 6th in terms of the number of employees.

A COMPANY THAT IS WELL PREPARED AGAINST NATURAL DISASTER

Between 10th and 11th of October, the National Emergency Management Agency organized a "Disaster Preparedness" event across the country to ensure the implementation of laws against disaster, to prevent the occurrence of and to reduce the risk of disaster. Gobi Corporation participated in the event, leading a total of 93 organizations from Khan-Uul district, and receiving a certificate of "Fully Sufficiently Prepared Against Disaster."

A PRODUCT THAT IS THE NATION'S PRIDE

Between 17th and 21st of October, Gobi Corporation participated in "Mongolian Export Expo-2018," an event organized at the initiative of the Cabinet Secretariat of Government of Mongolia and the Ministry of Agriculture and Light Industry to celebrate the 85th anniversary of the development of the light industry. At the event, Gobi Corporation's embroidered overcoat and jacket were awarded "A Product that is the Nation's Pride."

BEST PUBLIC LISTED COMPANY

On 13th of December, Gobi Corporation was awarded the "Best Public Listed Company" at the GRAND BULL AWARDS, an event that assessed the gains and achievements that were made between 2014 and 2018 of the companies that trade at the Mongolian stock market.

GOBI IN 2018

NOTABLE EVENTS AND HIGHLIGHTS

2.10

LAUNCHED A FRANCHISING STORE IN THE CITY OF HAILAR, INNER MONGOLIA

We have launched our franchising store with an area of 160 square meters in the city of Hailar, one of the fastest growing cities in Inner Mongolia Autonomous Region of China.

3.09

LAUNCHED A FRANCHISING STORE IN THE CITY OF DÜSSEL-DORF, GERMANY

We have launched our franchising store with an area of 130 square meters in the city of Düsseldorf, Germany.

4.17

ANNUAL SHAREHOLDERS' MEETING HELD

The annual shareholders meeting was held at the "Mirage" ger restaurant, located next to the Factory store. The meeting was attended by 210 shareholders who holds a combined total of 6,946,873 voting rights; and the attendance rate was at 89.05 percent. At the meeting, our shareholders were provided with the Board's summary and conclusions of the company's 2017 operations and its financial statements. Moreover, a number of important issues were introduced and discussed, including the issues concerning amendments to the company's charter, reassessment of the Board members salaries and remunerations and selecting new Board members. In addition, the reports on the status of the 2016 dividend payouts as well as the Board's decision to distribute dividend from 2017 financial results were each introduced to the shareholders.

4.30

LAUNCHED A FRANCHISING STORE IN ISTANBUL, TURKEY

We have launched our franchising store with an area of 260 square meters in the city of Istanbul, Turkey.

6.14

A DAY OF THANKSGIVING AND APPRECIATION WAS HELD

Owing thanks to our hardworking employees and to the kindness of the Mongolian people, we have quickly recovered from the damages we suffered from the fire that ignited on our factory's roof. Consequently, a year after the fire, on the 14th of June this year, we welcomed and expressed our gratitude to those, including public and private entities as well as individuals, who have provided emotional and material support for us.

6.15

LAID FOUNDATION FOR THE PRIMARY PROCESSING FACTORY

We have successfully laid foundation to the primary factory that is being built on a 14.7 hectares land in Sergelen soum in Tuv Province.

GOBI IN 2018

8.18

LAUNCHED A FRANCHISING STORE IN THE CITY OF SI-YANG, CHINA

We have launched our franchising store with a 100 square meters area in the city of Si-Yang, China.

9.06

LAUNCHED A FRANCHISING STORE IN THE CITY OF HUHHOT, INNER MONGOLIA

We have launched our franchising store with an 80 square meters area in the city of Huhhot, Inner Mongolian Autonomous Region

10.03

AN EXTRAORDINARY MEETING OF SHAREHOLDERS HELD

An extraordinary meeting of shareholders was held at the "Mirage" restaurant, located next to the Factory store. The meeting was attended by 45 shareholders who collectively holds a total of 6,921,425 voting rights. The attendance rate was at 88.72 percent. At the meeting, the company's stock was split into 100 and the amendment to the company's charter was approved by 99.99 percent vote.

10.15

A NEW BRANCH WAS LAUNCHED AT GALLERIA ULAANBAATAR

We have launched a new branch in the center of Ulaanbaatar, located on the left side of the Government House, and began to provide services that are up to the standards of the city of Ulaanbaatar.

11.01

NEW EXTENSIONS TO OUR FACTORY BECAME OPERATIONAL

A new, two story, factory extension with a total area of 6,690 square meters became operational. Our knitting and sewing factories have moved to this building.

11.15

LAUNCHED A FRANCHISING STORE IN CHICAGO, USA

We have launched our franchising store with a total area of 300 square meters in Chicago, Illinois, USA.

FINANCIAL AND OPERATING HIGHLIGHTS

/2017 Performance Indicators/

39%↑
SALES REVENUE
MNT **173.4** billion

1.5%↑
NET PROFIT
MNT **17.8** billion

50%↑
DOMESTIC SALES
MNT **111.8** billion

23%↑
INTERNATIONAL SALES
MNT **61.6** billion

40%↑
TAXES PAID
MNT **28.1** billion

177%↑
INVESTMENT
MNT **29.5** billion

44%↑
MARKET CAPITALIZATION
MNT **260.5** billion

22%↑
NUMBER OF EMPLOYEES
384 Employees increased

4%↑
YARN PRODUCTION
367 tons

41%↑
KNITWEAR PRODUCTION
800 thousand pieces

56%↑
WOVEN PRODUCTION
478 thousand pieces

45%↑
SEWN PRODUCTION
82 thousand pieces

TOTAL NUMBER OF EMPLOYEES 2,113

MANAGEMENT-**259**

FACTORY-**1,581**

SALES-**273**

GENDER RATIO OF EMPLOYEES

28% **72%**

AGE BREAKDOWN OF EMPLOYEES

18-24	25%
25-30	29%
31-36	16%
37-43	15%
44-50	9%
51-55	4%
56 +	2%

On paternaty leave of absence -**168**

A total of **4,326** employees (double counted) participated in both domestic and overseas training.

A total of **129** employees received State Medals and company awards.

EDUCATION LEVEL

UP FOR BACHELOR-**840**

HIGHSCHOOL-**726**

PRIMARY HIGHSCHOOL-**547**

2018 FINANCIAL & OPERATIONS PERFORMANCE AND 2019 PROJECTION

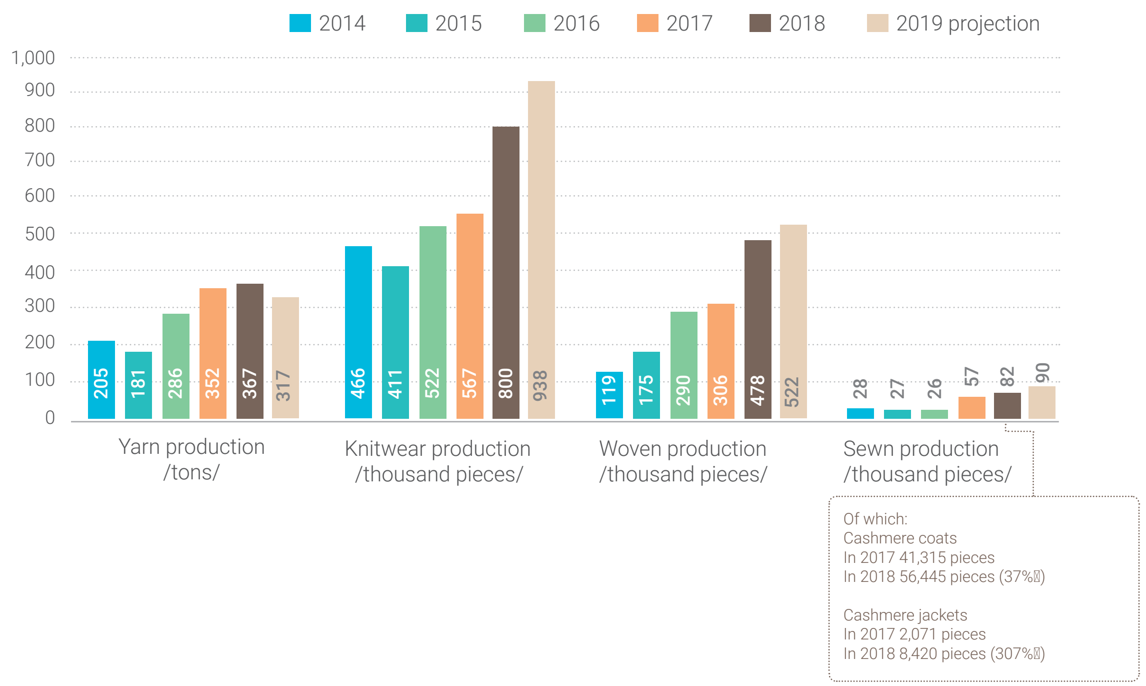
Indicator	Unit	2017	2018					2019		
		Actual performance	Planned performance	Actual performance	Y-o-y change		Y-o-y change	Projection	Y-o-y change	
					Quantity	Quantity			Quantity	Quantity
SALES REVENUE	**MNT million**	**124,425**	**150,445**	**173,439**	**49,014**	**39%**	**115%**	**239,905**	**66,466**	**38%**
Domestic sales	MNT million	74,564	96,545	111,864	37,300	50%	116%	157,405	45,541	41%
International sales	MNT million	49,861	53,900	61,575	11,714	23%	114%	82,500	20,925	34%
Exports	USD thousand	20,424	22,000	24,713	4,289	21%	112%	30,000	5,287	21%
COST OF GOODS SOLD (COGS)	**MNT million**	**73,881**	**93,728**	**102,148**	**28,267**	**38%**	**109%**	**143,137**	**40,989**	**40%**
GROSS MARGIN	**MNT million**	**50,544**	**56,717**	**71,292**	**20,748**	**41%**	**126%**	**96,769**	**25,477**	**36%**
Operating expenses	MNT million	26,328	32,176	41,852	15,525	59%	130%	58,112	16,260	39%
Non-operating expenses	MNT million	774	-	6,191	5,417	699%	0%	2,968	-3,223	-52%
Pre-tax profits	MNT million	23,442	24,541	23,248	-194	-1%	95%	35,688	12,439	54%
NET PROFIT	**MNT million**	**17,503**	**18,856**	**17,764**	**261**	**1%**	**94%**	**27,551**	**9,787**	**55%**
Total operating expenses	MNT million	100,983	125,904	144,000	43,017	43%	114%	204,218	60,218	42%
Cost associated with generating MNT1 tugrik in revenue	MNT	0.81	0.84	0.83	0.02	2%	99%	0.85	0.02	3%
PRODUCTION OUTPUT										
Knitwear production	Thousand pieces	567	800	800	233	41%	100%	938	138	17%
Woven production	Thousand pieces	306	400	478	172	56%	119%	522	44	9%
Sewn production	Thousand pieces	57	73	82	25	45%	112%	90	7	9%
Of which: Coats	Thousand pieces	41	60	56	15	37%	94%	66	9	17%
Jackets	Thousand pieces	2	9	8	6	306%	89%	13	4	50%
Yarn production	Tons	352	407	367	15	4%	90%	317	-51	-14%
NUMBER OF EMPLOYEE	**People**	**1,729**	**1,956**	**2,113**	**384**	**22%**	**108%**	**2,164**	**51**	**2.4%**
Revenue per employee	MNT thousand	71,964	76,915	82,082	10,118	14%	107%	110,862	28,780	35%
INVESTMENT	**MNT million**	**10,657**	**17,005**	**29,476**	**18,819**	**177%**	**173%**	**13,060**	**-16,416**	**-56%**

GOBI IN 2018

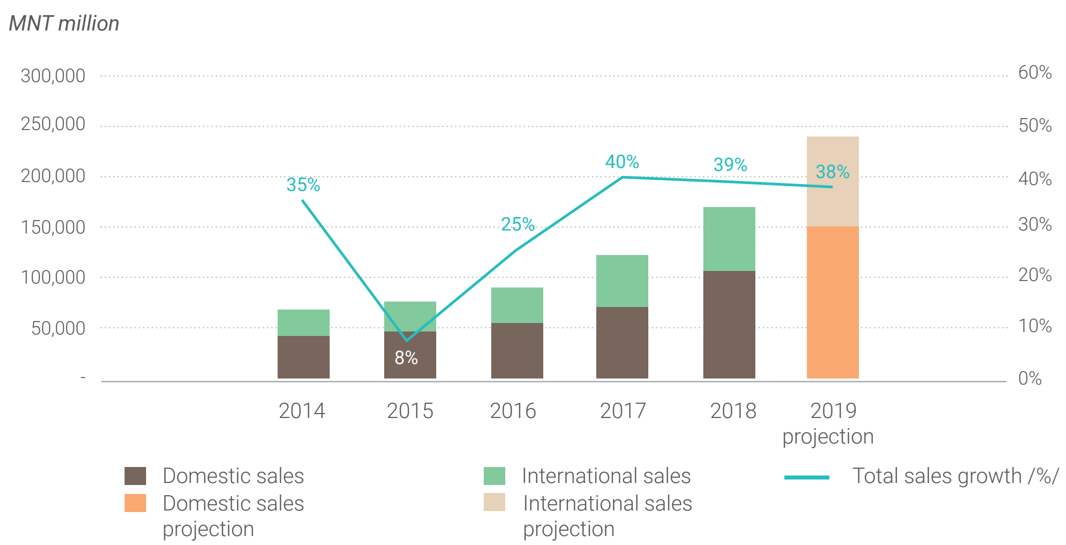
2019 ACTION PLAN

1. To increase the company's sales revenue by 38 percent from the previous year.
2. To improve the management of inventory and reduce inventory by 40 percent.
3. To maintain the number of employees with a focus on raising their productivity level by continuing the introduction of the "Toyota production system" into our production process.
4. To work with a program that aims to bring Galleria Ulaanbaatar branch's sales revenue to be in line with that of the Central store, adjacent to our factory.
5. To introduce the international quality standard ISO 9001:2015, and to finalize the preparatory work for introducing the standard for Environmental Management System ISO 14001:2015, and Occupational Health and Safety Standard ISO 45001:2018.
6. To develop a new policy on sustainable development and social responsibility.
7. To lay foundation to a policy for the development of a global brand.
8. To develop the technology required for ultra-thin fabric that is designed for suits, thereby to mass produce high quality and stylish products.

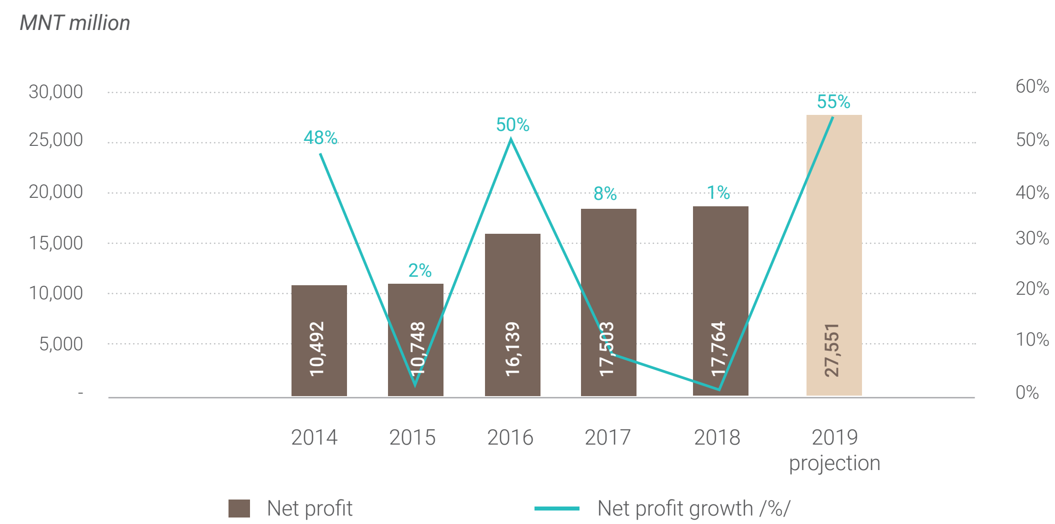
PRODUCTION OUTPUT



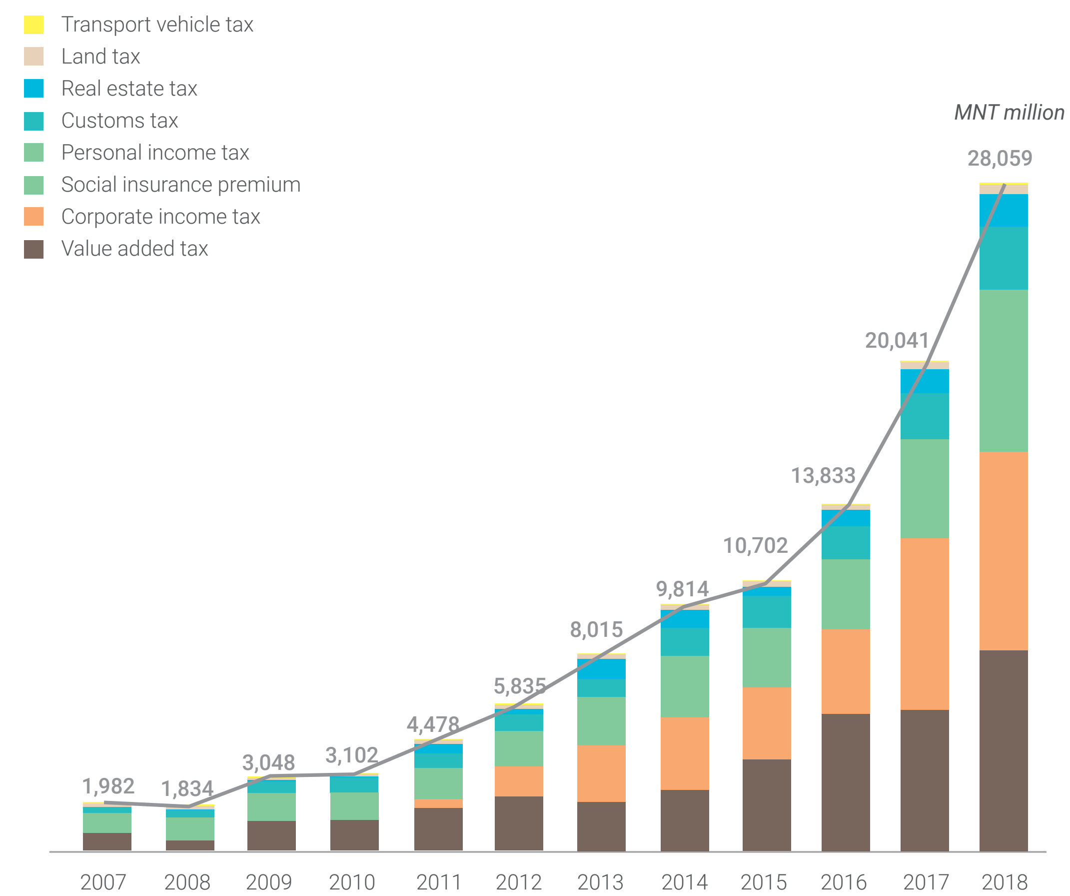
SALES



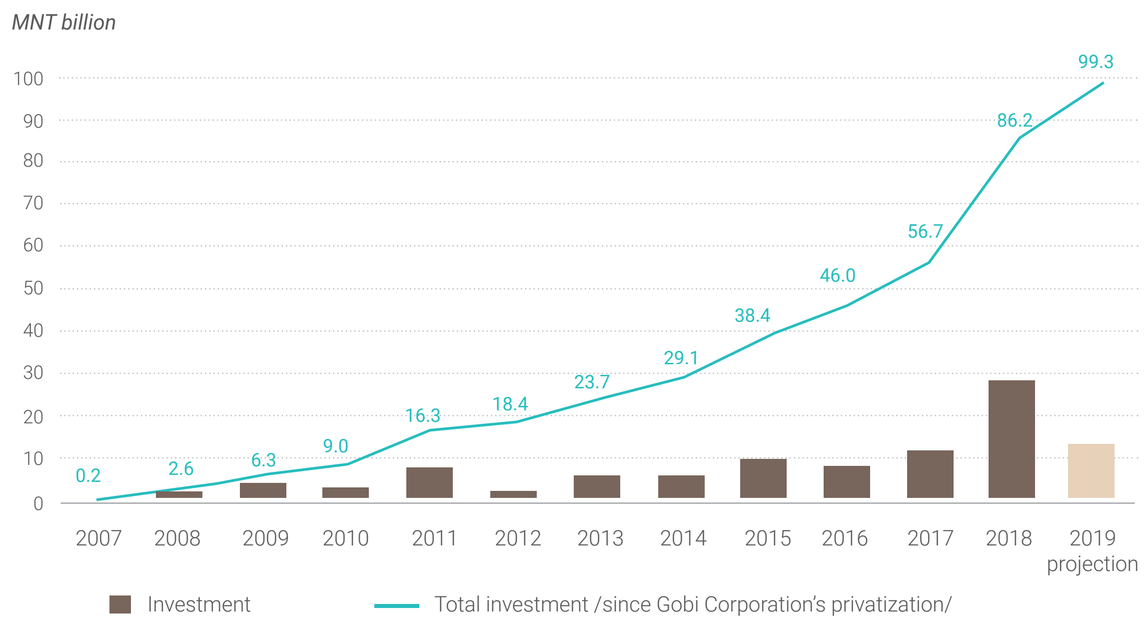
NET PROFIT



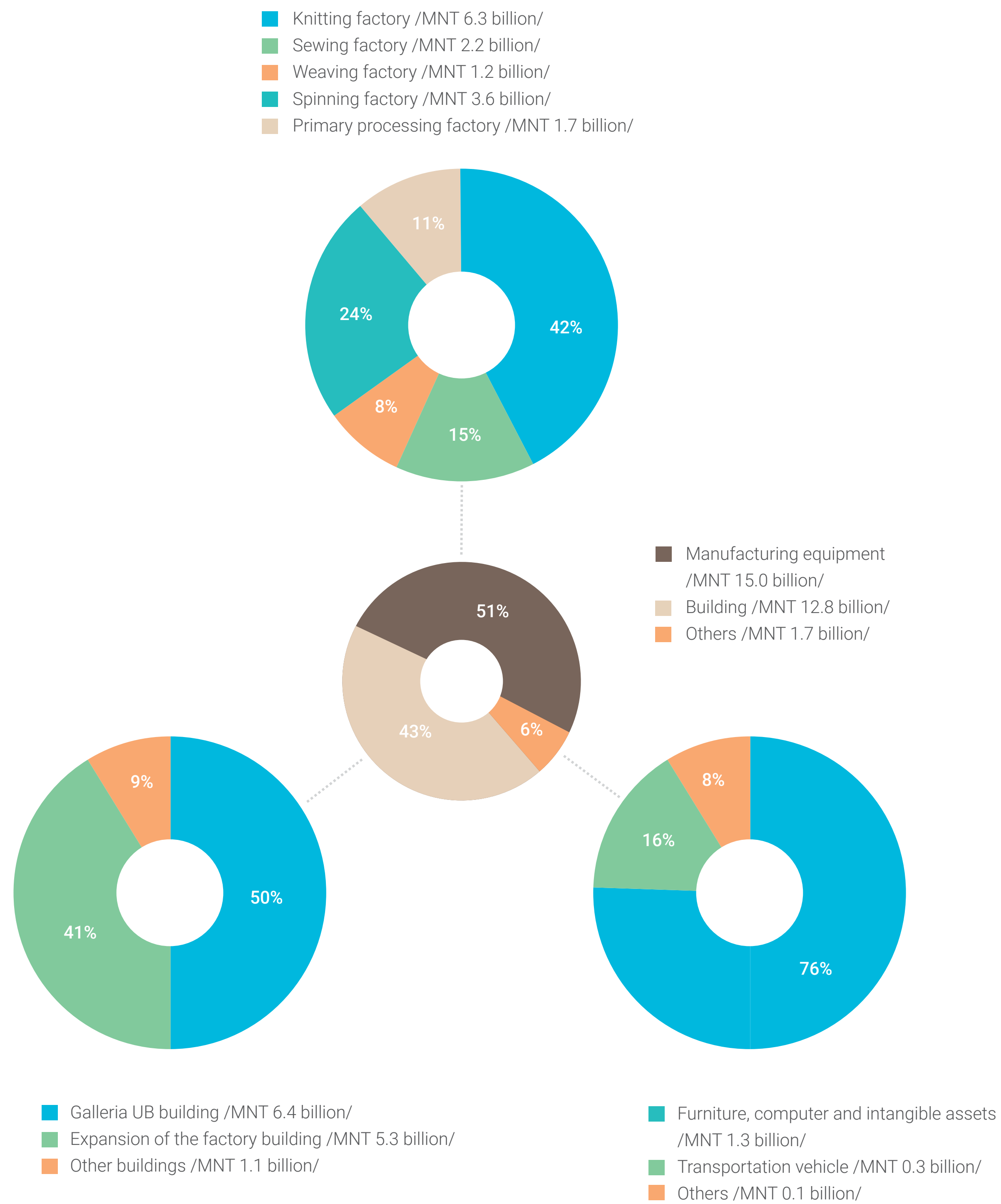
TAXES PAID



INVESTMENT



In terms of the increased amount, a total of 86.2 billion MNT in investment has been made since the privatization in 2007. Of this amount, 12.8 billion MNT, equal to 43 percent, was invested into building construction in 2018; and 15.0 billion MNT, an amount equal to 51 percent, was invested into production equipment; and 1.7 billion MNT or 6 percent of the total investment, was invested into other purposes.



NEW TECHNOLOGY AND DEVELOPMENT

PRIMARY PROCESSING FACTORY

Beginning from 2017, we have experimented with a new Chinese combing machine in our combing process. With the introduction of this new machine into our production, we were able to save 4 times the energy utilized, reduce quality nonconformity by 50 percent, and decrease the content of lichen and waste. As such, we have installed 5 additional lines into our production.

SPINNING FACTORY

The new Italian mule spinning machine Bigagli was introduced in the spinning process. As a result, the yarn breaking force and yarn quality improved. Furthermore, the pilling of knitwear garments also improved. Furthermore, an automatic winding machine for yarn transferring from the Japanese company Muratec was introduced in the mule spinning section which allowed all the yarns for knitwear production to be produced using mule spinning.

WEAVING FACTORY

Within our stated goal of leading the world in production and sales of cashmere coats and jackets, we have introduced thick cashmere fabric designed to be used for coats, in addition to the thin linen for suits created with 100 percent cashmere yarn. We have also experimented and woven with yarn that is 70 percent cashmere and 30 percent silk and created a cashmere fabric for jackets and began to mass produce these products.

KNITTING FACTORY

In the sewing section of the knitting factory, a cup seamer machine from the Italian company Completee K&S was introduced therefore the cup seamer and linking machines are both being utizilized which results in the reducation of production team and increased production effieincy by 72%.

6 new wholegarment SHIMA SEIKI MACH2XS knitting machines from Japan were introduced and became operational in the knitting factory. These machine have the capability to knit wholegarment products including the collar.

SEWING FACTORY

Within our goal of producing internationally competative jackets that meet the technology and quality requirements, we have installed a German Indupress brand's pressing iron for women's jackets and a Turkish Malkan Kft brand's pressing iron for men's jackets, allowing us to mass produce these products.

TOYOTA PRODUCTION SYSTEM

With the purpose of introducing the Toyota Production System into our production process, we have partnered up and cooperated with a specialist from Japan, Mr.Hori Junji, from whom we have received expert advise on how to improve the organization of factory shifts, to efficiently install factory equipments, and to further sophisticate our factory plans.

In addition, the company's each and every department and unit has introduced the Kaizen system, allowing every employee to contribute to raising the company's overall productivity.

OUR OPERATIONS

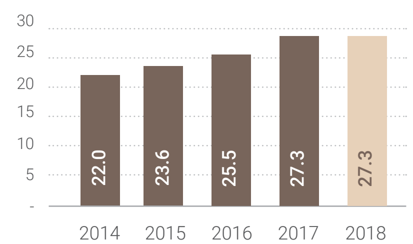
CASHMERE SECTOR

MONGOLIAN CASHMERE MARKET

In 2018, a total of 27.3 million goats were counted in Mongolia, a figure that is unchanged from the previous year. Mongolia produced 9,500 tons of cashmere in 2018, up by 1 percent from the previous year, and has accounted for 48 percent of the world's raw cashmere. In comparison, the average price of cashmere reached 105,000 MNT, 32 percent higher compared to the previous year; and the cashmere market has surpassed 1 trillion MNT, a growth of 35 percent from the last year.

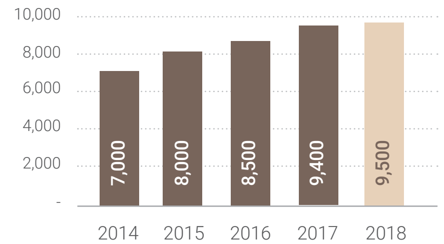
Quantitative data for the Mongolian cashmere industry over the past 5 years:

The number of goats /in millions/



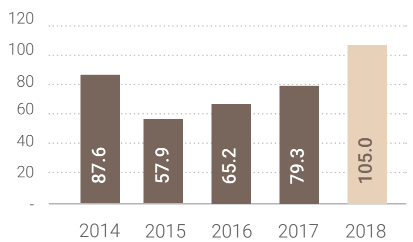
/from 2014, 24.1% growth/

Cashmere production /tons/



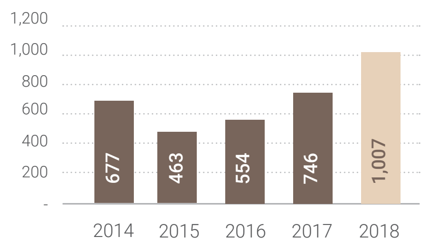
/from 2014, 35.7% growth/

Average price of cashmere /MNT thousand/



/from 2014, 19.9% growth/

Cashmere market /MNT billion/



/from 2014, 48.7% growth/

"CASHMERE" PROGRAM

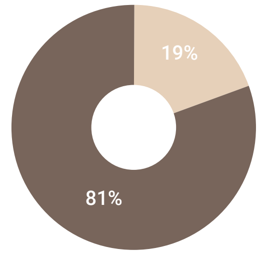
Mongolian government views the cashmere sector as one of the most critical sectors and has thus began to implement a number of policies, to support its development, as part of the overall development strategy for the Light Industry. A significant example of this has been the government's decision to update and renew the "Cashmere" program in February 2018. The program will be implemented over a 4-year period between 2018 and 2021 with the goal of raising the competitiveness of Mongolian cashmere, to improve the quality of its production, and to create and export a value-added product that is produced through an environmentally friendly production process.

The implementation of the "Cashmere" program has the potential positive outcomes such that the conditions for providing discounted loan and other investment for entities that produce value added products can be improved. This may have the intended effect of raising the level of processing raw materials to 60 percent, thereby sustaining the current workforce of about 5,000 employees who work in the cashmere sector, in addition to creating another 3,600 new jobs and increasing the exportation of value-added products by 5.7 times.

Mongolia supplies 48% of the total world raw cashmere.

INTERNATIONAL CASHMERE MARKET

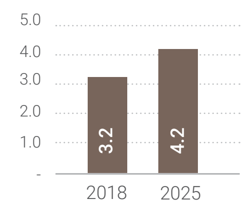
World Population / in billion/



The world has a population of 7.7 billion people, 1.5 billion of whom live in the cold region and are thus considered to be the target market of cashmere producers. This constitutes about 19 percent of the world's total population.

- Warm region /6.2 billion/
- Cold region /1.5 billion/

International Cashmere Markets /USD billion/

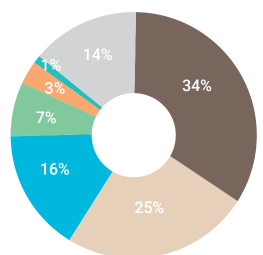


/from 2018, 31% growth/

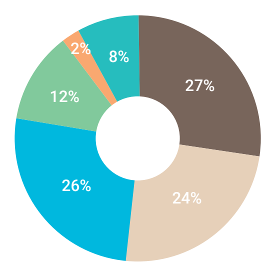
The size of the international cashmere markets was estimated to have been 3.2 billion USD* in 2018. It is expected to reach 4.2 billion USD by 2025 with an annual average growth rate of 3.86 percent.**

Source:
**HTF Market Intelligence*
*** Aurum Partners: Gobi Corporation Due Diligence Report for Asian Development Bank, January 2018*

International Cashmere Sales by Region



Top Companies of the International Cashmere Market



Source: World Bank WITS 2016, TBG

Among the main consumers of cashmere in the international markets, China, the USA, and European countries account for 75 percent of the total consumption. Gobi Corporation brands make up about 2.2 percent of cashmere sales in the international markets.

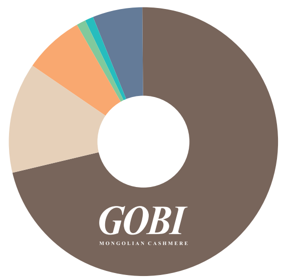
As such, there are significant opportunies for Gobi Corporation and for Mongolia to expand our market share in the international cashmere markets, if we can make the neccessary improvements to the quality, design, and production of our value-added cashmere products as we gradually take the requisite steps that are tailored toward the overseas markets.

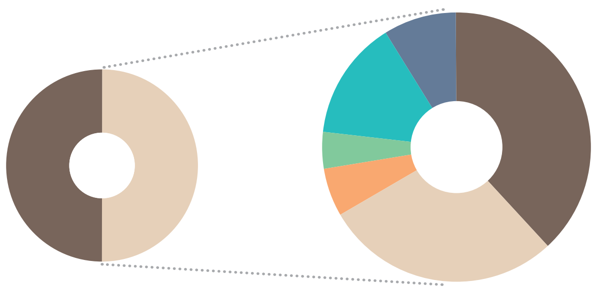
DOMESTIC MARKET

50%

In 2018, the total domestic sales reached 111.9 billion MNT, an increase of 50 percent from the previous year.

Domestic market share





Concerning the total amount of domestic sales, about 50 percent were purchased by overseas customers or tourists while the rest were made by Mongolian customers. Of all the overseas customers who purchased products from Gobi Corporation, 66.4 percent were of Korean or Chinese nationals.

13%	35%	35%
TOURISTS VISITING MONGOLIA 529.4 thousand individuals	TOURISTS WHO HAVE FREQUENTED GOBI BRANCH STORES 111.5 thousand individuals	SALES VOLUME GROWTH ATTRIBUTABLE TO TOURSTIS 51.2 thousand individuals

In 2018, the number of foreign visitors to Mongolia grew by 13 percent from the previous year, reaching 529.4 thousand; and the number of foreign customers who purchased from Gobi Corporation grew by 35 percent. Following this, the amount of purchase made by foreign visitors also grew by 35 percent. This plainly illustrates the fact that the number of foreign visitors to Mongolia has a direct impact on our company's sales volume. Going forward, the growth and development of tourism industry will be a significant boost for not only Gobi Corporation but also for other domestic cashmere producers. Gobi Corporation takes advantage of this opportunity and has adopted strategies for improving its quality of services and aiming to attract tourists.

NEWLY OPENED STORE

GALLERIA ULAANBAATAR BRANCH STORE

On 15th of October, 2018, we opened our new branch store with a total area of 1,428 square meters in the first and second floor of Gallery Ulaanbatar, located on the left side of the Government House in the center of Ulaanbatar city. Through this new store, we have expanded our sales channel into the city's luxury zones, enabling us to provide serves to our customers that meet world standards.

RECORD ACHIEVEMENTS OF 2018

Had a sales revenue of **1.7** billion MNT in one day /23th of November/

Sold **655** coats in one day /23th of November/

BLACK FRIDAY

Sales revenue reached **4.8** billion MNT during 4 day Black Friday Sales Campaign /23th to 26th of November/

OUR PLANS FOR 2019

Based on an analysis of the results from our sales channels, we are planning to close our branches at the State Department Store and at Urguu hotel, and instead to maintain 6 other main stores: The Factory store, the Galleria Ulaanbaatar branch store, the Smart branch store 3,4th micro-district, the Shangri-La branch store, the Chinggis Khan International Airport branch store and our branch in Darkhan city.

Furthermore, we are working with a goal of providing services that meet world standards by increasing the knowledge and capacity of all our empleeys at our branch stores.

8 → 6

in 2018 in 2019

INTERNATIONAL MARKET

23%

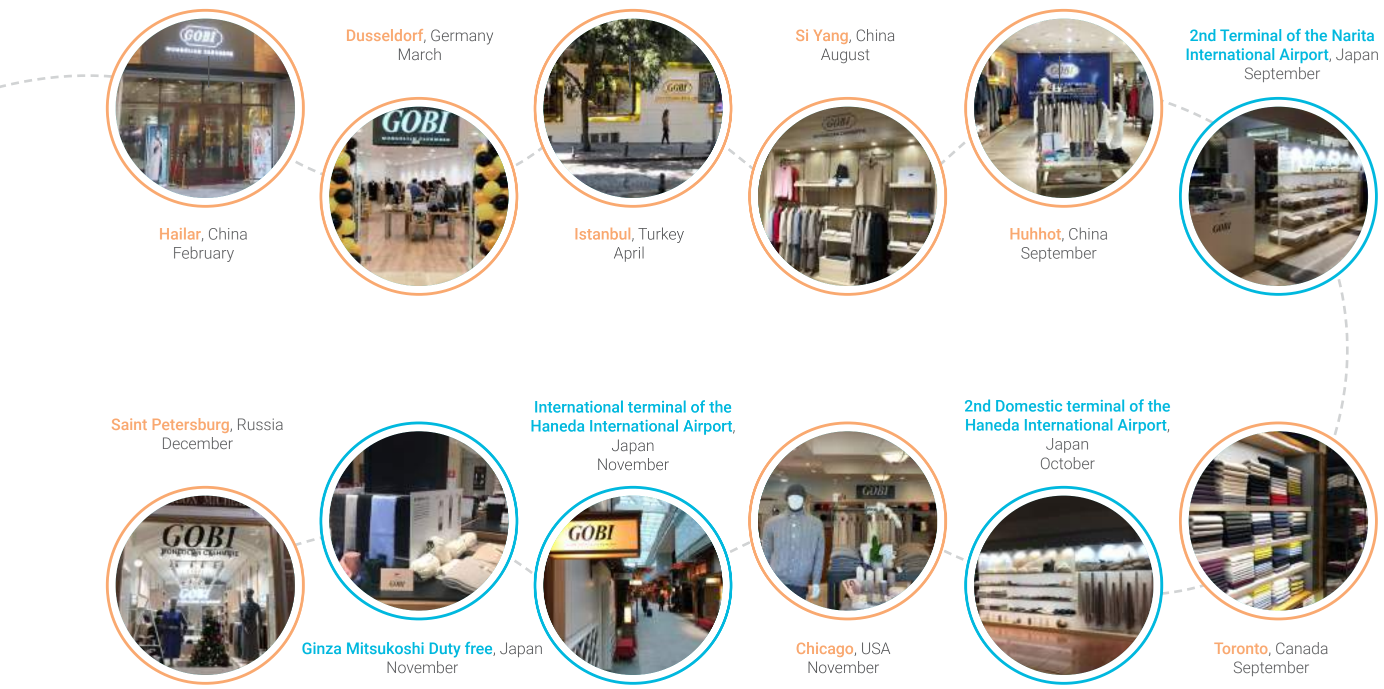
In 2018, international sales reached 61.6 billion MNT, an increase of 23 percent from the previous year.

International market share

- Gobi Corporation -63.1%
- Goyo LLC-13.8%
- Cashmere Holding LLC-8.1%
- Snow Fields LLC-6.4%
- Blue Sky Cashmere LLC-2.8%
- Others-5.8%

NEWLY OPENED STORES

Franchise store Pop-Up store



We are supplying our products to about 171 customers from 31 countries. At the end of 2018, we have 61 franchising stores and 5 branches in 40 cities of 13 countries.

We are working to increase our stores in overseas to 100 and franchising stores to 90 by 2022.

ONLINE SALES

In 2017, www.gobicashmere.com became our online webpage, allowing us to sell our products with speed and efficiency to every corner of the world.

Starting from 2018, we have began to expand our online sales channels that target international markets by launching the "Gobi Cashmere" smart phone application and by selling our products on amazon.com, a site that accounts for 43 percent of retail sales in the U.S.

HIGHLIGHTS

We have given a presentation of our new collection for our foreign clients and twice received a collective purchase order. Thus, by receiving collective orders we could pre-develop our sales plans, thereby increasing our productivity.

The presentation event of GOBI and YAMA brand's autumn and winter collections in Brussels, Belgium in March.

The presentation event of GOBI, YAMA, and ORGANIC brand's spring and summer collections in Tokyo, Japan in March.

NOTEWORTHY FACTS

Gobi Brand products were successfully sold through the South Korean Hyundai Home Shopping.

12,000 jumper shirts were sold in 60 minutes.
/9th of October/

800 reversible coats were sold in 17 minutes.
/19th of October /

4,000 knitted shawls were sold in 18 minutes.
/5th of November/

OUR PLANS FOR 2019

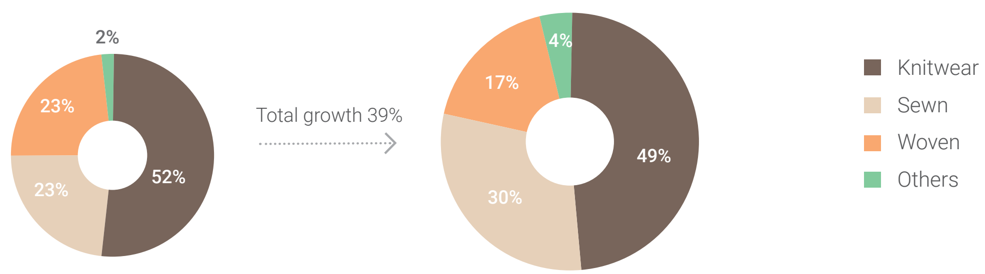
In addition to improving the organization and services of our branch stores, we are also planning to open new franchising stores in Kyzyl city, Tuva Republic of Russia and in Beijing, China.

In addition, we will work on further improving and activating the rapidly developing "Online Sales" channel with which we will increase our sales.

PRODUCTS

Our highly skilled Product Development team has dedicated their talents for developing 24 new collections that are consistent with world's fashion trends and delivered superior quality services and products to our customers.

BREAKDOWN OF PRODUCT SALES

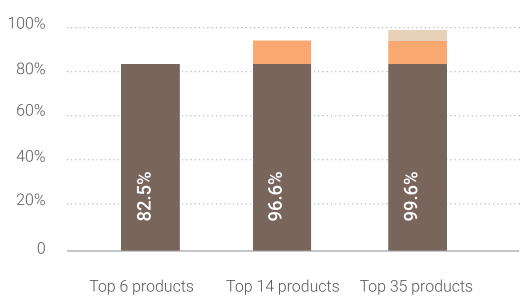


in 2017 in 2018

The breakdown by each product of our total sales shows 3 percent decreases for the share of knitwear products and 6 percent decreases for the share of woven products respectively in 2018. In contrast, the share of sewn products in total sales revenue increased by 7 percent, reaching 30 percent overall. Our company is planning to decrease its share of knitwear and woven products, while increasing its share of sewn products. In this regard, we are especially focusing on the design and development of technology of cashmere coats, jackets, and suits.

PRODUCT PORTFOLIO

Percentage of sales



In 2018, we have systematized our product portfolio and reduced the types of products. Based on their share in total sales, we have stopped the production of certain products with lower sales turnover, which resulted in our company having fewer number of products and increased productivity.

As a result, the company is continuing to produce the top 35 products that make up 99.6 percent of total sales revenue, while 24 other products that accounted for a mere 0.4 percent of total sales were eliminated. This has reduced factory load and increased productivity.

The following graph illustrates that our top 6 products make up 82.5 percent of total sales revenue, while 96.6 percent of which was accounted for by our top 14 products. Consequntly, we shall especially focus on these products and planning on improving their design, quality, and technology.

PRODUCT DEVELOPMENT AND TECHNOLOGICAL ADVANCE

A part of our 2018 operation's goal was to learn the know-how and the technology required for producing cashmere jackets are internationally competative in terms of design and quality. To realize such a goal, Gobi Corporation has cooperated with the Hungarian company, "Titem," where our employees visited to exchange experiences and obtained specialized training. This has allowed us to mass produce both men's and women's cashmere blazers.

To increase our sales directed toward foreign markets and to augement the number of purchases made by tourists, we have renewed the standard size of our cashmere coats in line with Asian and European standard sizes and began to have them on sale.

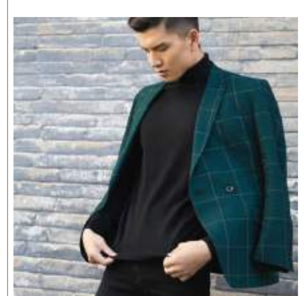
We have started a trial production of cashmere suits using 100 percent ultra-thin cashmere that has been prepared through all the production processes (including the primary stage and the spinning and weaving stages), and produced in Japan.

With this big innovative step, Gobi Corporation has shown its ability to produce high quality suits comparable to the world's luxury brands. Going forward, Gobi Corporation aspires to further develop the technology and production of thin fabric and will mass produce it with the highest design and quality.

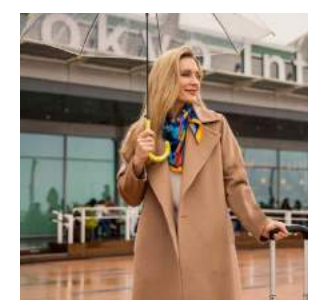
NEW PRODUCTS AND SERVICES

3D prints, splendor yarn and embroidered knitwear products

Baggy designs and printed, patterned and embroidered cashmere blazers



Improved design and fit for male cashmere blazers. Furthermore, ultra-thin cashmere suits were introduced



Specially designed coats created in partnership with Haneda coat, Black coat, Anna Von Griesheim brands

Printed shawls with paintings of artists S.Sarantsatsralt and N.Tuya; and printed shawls with animal paintings

Hand printed shawl and printed shawl for fashionable men

OUR OPERATIONS

BRANDS

GOBI MONGOLIAN CASHMERE

GOBI MONGOLIAN CASHMERE – recognized globally and uniquely Mongolian brand

GOBI ORGANIC MONGOLIAN CASHMERE

GOBI ORGANIC CASHMERE - exclusively using the natural colors of Mongolian cashmere. Designs and colors in white, yellow-white, white-grey, and brown.

YAMÁ cashmere

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.

GOBI KIDS

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

COLLECTIONS

LUNAR NEW YEAR 2018

GOBI SPRING/SUMMER 2018

YAMA SPRING/SUMMER 2018

NAADAM 2018

OUR OPERATIONS

GOBI KIDS 2018

GOBI FALL/WINTER 2018-19

YAMA FALL/WINTER 2018-19

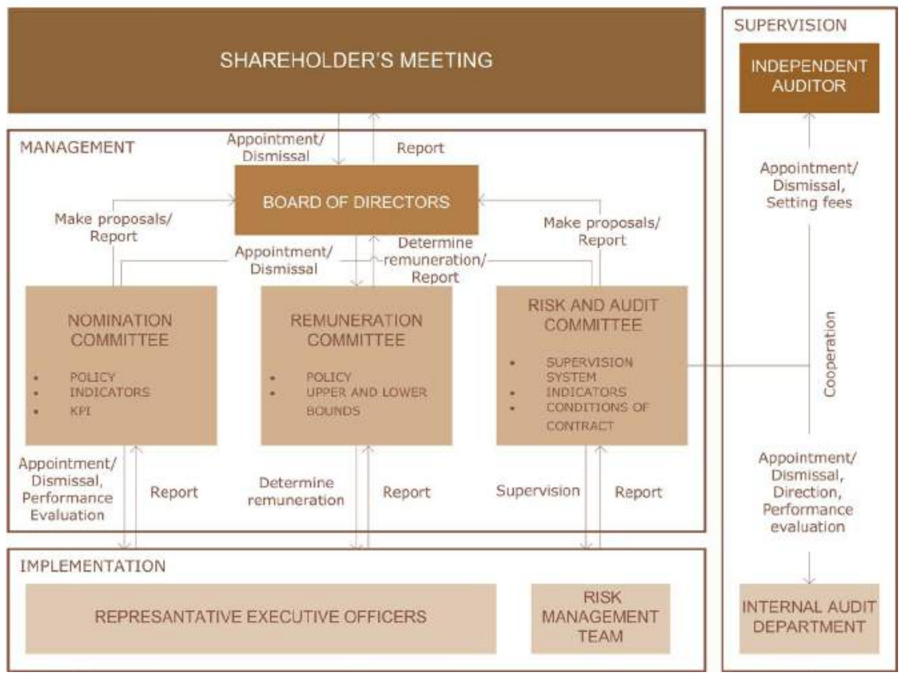
ORGANIC 2018

OUR BUSINESS PARTNERS

CORPORATE **GOVERNANCE**

GOVERNANCE STRUCTURE & OPERATIONS

The governance structure of Gobi Corporation is the sum of structures and regulations designed to balance the interests of shareholders, management, and other relevant parties; its purpose is to determine, implement, and monitor the company's fundamental objectives and operations.



To strengthen good governance in 2018, we have completed the following:

1. We have revised our corporate governance policy documents and published "the Governance Code of Gobi Corporation". Policy documents that were revised in 2018:
- Procedure for Dividend
- Procedure for Shareholder Meeting
- Procedure for Operation of the Board
- Procedure for Information
- Corporate Code of Conduct
- Procedure for the acceptance and resolution of stakeholder submissions, comments and complaints.
- Policies for Authorized officers

2. The following tasks were accomplished by the Board Committees:
- Renewed the Management agreement with the company's Executive management.
- Developed and approved self-assessment question are for Board members.
- Finalized the self-assessment of the Board.
- Carried out the company's governance assessment and made it publicly available by publishing it on the webpage of Mongolian stock market and on its own website.
- The Board committees have decided to regularly report the issues and outcomes discussed at their meetings to the Board.

3. The following actions were taken in order to ensure the interests of our shareholders:
- Independent auditors are regularly participating in the Shareholders meetings, facilitating opportunities for our shareholders to ask questions and receive the necessary answers.
- Our annual company report now includes an additional content regarding Risk Management, which provides information about the potential risks that may pose for the company's operations and how it shall manage such risks.

CORPORATE GOVERNANCE

GOVERNANCE SELF-ASSESSMENT

Our company has completed its self-governance assessment for the second year in a row which was discussed, reviewed, and approved by our regular Board meeting. This assessment was carried out in accordance with the corporate self-governance questionnaire that is published by the Mongolian Stock Exchange.

GOBI CORPORATION'S SELF-ASSESSED CONSOLIDATED GOVERNANCE SCORE

№	Basic principles	Number of questions	Target results	Actual results			Result /%/	
				2017	2018	Growth %	2017	2018
A	Protection of shareholder rights and subsequent effectiveness of the share-holder meeting	20	20.0%	17.5%	18.5%	1% ↑	87.5%	92.5%
B	Equality of rights for shareholders	10	10.0%	7.5%	9.5%	2% ↑	75.0%	95.0%
C	Stakeholder participation	10	10.0%	8.0%	8.5%	0.5% ↑	80.0%	85.0%
D	Transparency	20	20.0%	16.5%	18.0%	1.5% ↑	82.5%	90.0%
E	Board of director compo-sition	30	30.0%	24.5%	27.5%	3% ↑	81.7%	91.6%
F	Management activities	10	10.0%	7.5%	9.0%	1.5% ↑	75.0%	90.0%
	Total	100	100.0%	81.5%	**91.0%**	**9.5% ↑**		

The following overall result shows that Gobi Corporation's 2018 governance evaluation was determined to have been 91.0 percent, a 9.5 percent increase from the previous year.

Indicators which received a score of above 90 percent:
- Protection of shareholder rights and the annual shareholder meeting
- Equality of rights for shareholders
- Transparency
- Board of directors related tasks and work
- Management activities

Indicators which scored below 90 percent:
- Stakeholder participation

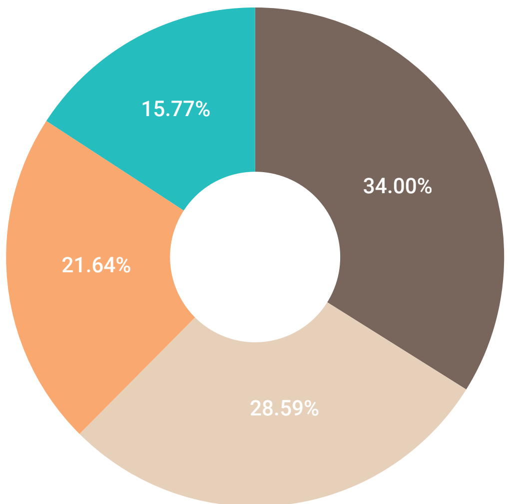
ACTIONS THAT WILL BE TAKEN IN THE FUTURE TO IMPROVE CORPORATE GOVERNANCE

Our company has been working hard to strengthen its governance and to lead the nation in terms of good governance by adhering to the Law of Mongolia on Companies and to Mongolian corporate governance codex, as well as by learning from the examples of good governance from foreign companies. Hence, the Board has concluded that we have a lot of work to do. As such, we are planning to implement the following steps in order to further improve our corporate governance:

- To provide more details about the results of the work of the Board and its committees in our Annual Business Report, and to improve the contents of our reports.
- To report on the Board's activities and how it operates in our shareholders' meetings, in addition to the reports about the company's operations.
- To continuously search for ways to ensure that our shareholders' rights are protected, and their interests are fully met.
- To improve the content as well as the scope of information that will be delivered to the public at every instance.
- To continuously improve the contents of the information published on our company's webpage.
- To improve the control system for ensuring internal security
- To provide more detailed summary of each Board members activates after the end of the reporting year.
- To make the Risk and Audit department provide their assessment of the company's risk management.

SHAREHOLDERS

SHAREHOLDERS STRUCTURE



- HIDE INTER LLC - 34.00%
- FCI LLC - 28.59%
- TAVAN BOGD TRADE LLC - 21.64%
- OTHERS - 15.77%

INFLUENTIAL SHAREHOLDERS

Shareholder	Shares owned	Percentage of all shares
HIDE INTER LLC	265,238,300	34.00%
FCI LLC	223,001,900	28.59%
TAVAN BOGD TRADE LLC	168,809,800	21.64%

TOTAL SHARES OUTSTANDING

780,112,500

/The company's stock was split into 100 on 3rd of October, 2018 by the decision of the Extraordinary Shareholders Meeting./

TOTAL NUMBER OF SHAREHOLDERS

16,586

/as of 2018.12.31/

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.

With 16 subsidiaries, 3 invested companies, 4 business units and over 12,000 employees, the Tavan Bogd Group is Mongolia's foremost group company that leads each sector in which it operates.

SHAREHOLDERS MEETING

The shareholders meetings are the primary ways by which Gobi Corporation's shareholders exercise their rights; and shareholders meetings shall be the highest governing body of the company. Through the shareholders meetings, the company discusses and resolves key issues pertaining to the shareholders rights that are stipulated in Article 62.1 of the Law on Companies, in addition to those issues concerning the company's management and operations that are determined by the Board or by the company's charter to be discussed by the shareholders meetings.

REGULAR SHAREHOLDERS MEETING

Gobi Corporation held its regular shareholders meeting on April 17, 2018 at 2:00 pm in "Mirage" ger restaurant. The meeting was attended by 210 shareholders who collectively hold 6,946,873 voting rights; the attendance rate was at 89.05 percent. The following issues were discussed and resolved:

1. The Board's resolution regarding the company's 2017 operational and financial reports, states that Gobi Corporation's management team has fully utilized all its resources to fulfill the 2017 goals. This resolution was approved by the shareholders meeting with 99.88 percent vote.

2. Amendments to the company charter was discussed and approved with 99.85 percent vote.

3. The report on the 2016 dividend distribution and the Board's decision to distribute dividend payments from 2017 financial results were introduced.

4. A cumulative voting on the approval of candidates for the membership of the Board has determined the following candidates to be independent board members: M.Bayar, D.Gerelmaa, B.Nandin-Erdene, Takashi Kambe, Z.Shagdarsuren; and the following candidates to be regular board members: Ts.Baatarsaikhan, J.Oyunchimeg, Hideo Sawada, and D.Khulan. These members were each elected for a 3-years term.

5. Re-approval of board member's remuneration was passed by 99.84 percent vote.

CORPORATE GOVERNANCE

EXTRAORDINARY SHAREHOLDERS MEETING

Gobi Corporation held an extraordinary shareholders meeting at "Mirage" restaurant, located next to the Factory store, on October 3, 2018 at 10:00 am. The meeting was attended by 45 shareholders who collectively hold a total of 6,921,425 voting rights. The attendance rate was 88.72 percent; and the following issues were discussed and resolved:

1. The issue of splitting the company's shares 1:100 was approved by 99.99 percent voting.
2. Amendments to the company's charter was discussed and approved with 99.99 percent of the votes.

MANAGEMENT TEAM AND SHAREHOLDERS MEETING EXPENSES

/MNT thousand/

TYPE OF EXPENSES	2018	2017	2016
Remuneration of Board of Directors	184,367	109,614	82,783
Remuneration of Key Management	1,719,000	1,033,005	724,449
Shareholders meeting expenses	16,472	13,407	11,138

THE BOARD OF DIRECTORS

The Board of Directors of Gobi Corporation is the governing body of our company while shareholders meetings are in recess; its main responsibility is to protect the rights of our shareholders, and on whose behalf the board provides guidance and general management to the company while also monitoring the company's operations. Each year, the Board of Directors approves the company's strategic objectives and business plans and reviews the implementation of these plans on a monthly basis and provides relevant guidance and responsibilities. Furthermore, the Board implements corporate governance by establishing Risk and Audit committee, Nomination committee, and Remuneration committee, all of which operate on a regular basis. In addition, the Board ensures our internal controls through the actions of the Internal Audit division, which operates the management of the Risk and Audit committee.

MEMBERS OF THE BOARD OF DIRECTORS

INDEPENDENT BOARD MEMBERS

GERELMAA
Damba

Chairman 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

REGULAR 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 Corporation

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

SHAREHOLDINGS OF BOARD MEMBERS

BOARD MEMBER	SHARES OWNED OF GOBI CORPORATION	
	DIRECTLY	INDIRECTLY THROUGH RELATED ENTITIES
KHULAN.D	12,247,300 shares(1.57%)	FCI LLC 28.59% TAVAN BOGD TRADE LLC 21.64%
BAATARSAIKHAN.Ts	50,000 shares (0.01%)	
TOTAL	51.80%	

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors held 6 regular and 3 extraordinary meetings in 2018 and discussed 35 issues, issued 33 decisions and 33 resolutions. Also, within the framework of its responsibilities, the Board provided 35 recommendations, tasks, and responsibilities to the company management.

№	Date of Meeting	Issue Discussed	Resolution
1	2018.02.02 /Regular meeting/	1. To review the 2017 finance and business results	-
		2. a. To renew and approve the 2018 business plan of the company, 2. b. To approve the mid-term strategic plan until 2022	1. Revised the Business plan for 2018. 2. Approved the mid-term plan until 2022.
		3. To discuss the distribution of dividends from the company's 2017 financial results.	3. Decided to distribute dividend of 220 MNT per share from the 2017 net profits. /9.8% of net profits, dividends paid per share increased by 10% year-on-year.
		4. To review the implementation of the negotiations between the company, relevant parties and parties with conflict of interest; to discuss and approve negotiations that will be made in 2018.	4. Approved the negotiations that will be made in 2018 with parties with conflict of interest and other relevant parties.
		5. To discuss and resolve how to secure financing for equipment.	5. Regarding the acquisition of a winding machine for yarn transferring from the Japanese company Muratec, the resolution/agreement regarding finance needed for the acquisition of the winding machine for yarn transferring was formed.
		6. Discuss and approve the "Procedure for dividend."	6. Approved the "Procedure for Dividend."
		7. To discuss and approve the "Rules for Shareholders' Meetings"	7. Approved the "Procedure for Shareholders meetings."
		8. To approve the schedule for the Board meeting in 2018	8. Approved the schedule for the Board meeting in 2018.
2	2018.02.15 /Extraordinary meeting/	9. To discuss the financial results of January 2018.	-
		10. To discuss obtaining loan from the Development Bank of Mongolia	9. Agreed to receive Working Capital loan from the Development Bank of Mongolia in regard to processing raw materials.
		11. To discuss financing from DBM LLC	10. Agreed to receive investment financing from DBM LLC in order to increase production capacity.
3	2018.03.07 /Extraordinary meeting/	12. To settle the issues that shall be discussed at the 2018 shareholders' meeting and to make a decision to convene the meeting.	11. The 2018 shareholders' meeting was set to be held on April 17, and the agenda to be discussed was approved: 1. To discuss and approve the resolutions made by the Board regarding the company's 2017 operations and its financial statements. 2. To discuss and approve the amendments to the company's charter. 3. To introduce the status of the dividend distribution from 2016, and Board's decision to distribute dividend from 2017 financial results. 4. To discuss and approve the issue of renewing the Board members salary and remuneration. 5. To approve the candidates for the Board of Directors.
		13. To appoint a census and editorial commission for the regular shareholders meetings.	12. A resolution to appoint a tabulation and editorial commission was passed.
		14. To discuss changing the collateral for the financing from the Trade and Development Bank.	13. Approved to change the collateral for financing obtained in December 2016 from the Trade and Development Bank.
4	2018.03.19 /Extraordinary meeting/	15. To discuss obtaining loan from the Development Bank of Mongolia with revised terms and conditions.	14. Revise the resolution made on February 15, 2018 with regards to obtaining working capital loan from the Development Bank of Mongolia and approved to obtain the loan in MNT rather than USD.
5	2018.04.09 /Regular meeting/	16. To familiarize with the financial results of February 2018 and with the status of raw material processing	-
		17. To review the preparation for the regular shareholders' meeting and the its agenda to be discussed.	-
		18. To discuss and approve the "procedure for the operation of the Board."	15. Approved the "Procedure for Operation of the Board".
6	2018.07.09 /Regular meeting/	19. To review the May 2018 financial results and the report on the progression of raw material processing.	-
		20. Discuss and approve the "Rules of Procedure for Information"	16. Approved the "Procedure for Information"
		21. To review the Board's self-assessment	-
		22. To review and familiarize with the issues and results discussed at the standing committees of the Board.	17. The "Code of Conduct" is decided to be prepared at the governance level. 18. Assigned the responsibility to the Internal Audit Department to identify highly relevant departments that face greater risks and to carry out auditing reviews at these departments for every 3 months. If, despite working with a new organization and increased productivity, the current workforce is not adequate, then to discuss again whether to increase the workforce for Internal audit division. 19. Rewarded the management team with a bonus, equal to one month's salary based on the assessment of its half-year performance. 20. Conducted wage estimation for positions that are relatively uncompetitive compared to the industry average, including engineers, designers, and repairers; and decided to increase their salaries from July 1. 21. Approved the resolution to grant authority the Executive director.
7	2018.08.24 /Regular meeting/	23. To review the results and financial standing of July.	-
		24. To discuss and approve the content of the special shareholders' meeting, to convene such a meeting and to appoint the census committee.	22. The special shareholders' meeting was set to be held on October 3, 2018. 23. The contents to be discussed at the special shareholders' meeting of 2018 were approved. 1. To discuss and approve the issue of splitting the company's stocks 2. To approve the amendments to the company's charter. 24. Issued the resolution to appoint the tabulation commission.
		25. To discuss and approve the terms of the loan borrowed from Xac Bank.	25. Approved to extend the terms of the loan borrowed in December, 2017 from Xac Bank.
8	2018.11.01 /Regular meeting/	26. To review results and financial standing of September 2018.	-
		27. To discuss and approve the company's "Code of Conduct"	26. The company's "Code of Conduct" was approved. 27. In November, the Nomination Committee has decided to organize training on ethical decision making for the Management Team.
		28. To review the issues discussed and results made by the Risk and Audit committees of the Board.	-
9	2018.12.21 /Regular meeting/	29. To review results and financial standing of November 2018.	-
		30. To review and familiarize with the expected results of 2018 operations, to approve the business plan and operational objectives for 2019.	28. Approved the business plan and operational objectives for 2019.
		31. To discuss and approve whether to receive financing from the Development Bank of Mongolia.	29. Approved to receive working capital loan from the Development Bank of Mongolia in relation to raw material processing.
		32. To approve the company's "Risk Management Policy"	30. Approved the company's "Risk Management Policy."
		33. To discuss the findings of the Corporate governance self-assessment.	31. It was decided that the self-assessment report shall be improved by reflecting each Board members comments, upon which it shall be made available to the public. 32. It was decided that the Board's activities shall be introduced at the 2019 shareholders meeting.
		34. To review the issues discussed at the meetings of the standing committees of the Board and their subsequent results.	33. It was decided that the standing committees of the board shall prepare their reports and to introduce them at the next Board Meeting and to include them in the operational report in detail.
		35. To review the implementation of the Code of Conduct.	-

THE COMMITTEES OF THE BOARD

RISK AND AUDIT COMMITTEE

The purpose of the Risk and Audit Committee of the Board is to ensure the conditions necessary for the Board to fulfill its core responsibility of providing oversight and control. As such, the committee's core functions are the following: to assure the integrity of the operations of the Accounting and Auditing and to make sure that the financial reports are true and correct; to monitor the compliance of the company's internal controls and to insure that the standards and rules of accounting are in compliance with relevant laws; to formulate policies and strategies for managing risks, to oversee the implementation of risk management; and to evaluate the independence and competence of the internal auditors and to select such auditors.

MEMBERS

Head of the Risk and Audit Committee:	B.Nandin-Erdene, Independent member of the Board
Members:	Z.Shagdarsuren, Independent member of the Board
	D. Khulan, Member of the Board

ANNUAL REPORT, 2018

The Risk and Audit committee held 4 regular and 2 extraordinary meetings in 2018, discussing 26 issues and producing 27 decisions and 5 resolutions. Moreover, within the framework of its key responsibilities, the committee provided 43 recommendations and tasks to the managers of the company.

This year, the committee has been instrumental in improving the risk management and internal control of the company.

To improve risk management, we directed the Risk Management Team carry out the following responsibilities: to finalize the documents for policies regarding risks, to monitor and control risk, to improve the classification of risks.

Moreover, within the framework of improving control and oversight, we directed the internal auditing department to introduce the international procedures for professional practice of internal auditing and to change Gobi Corporation's internal auditing rules in accordance with international standards.

NOMINATION COMMITTEE

The key responsibility of the Nomination Committee is to assist the Board of Directors with selecting a number of important positions and to define their roles and duties. These positions include the members of the Board, Chief Executive Officer, and other management level positions.

MEMBERS

Head of the Nomination Committee:	M.Bayar, Independent Member of the Board
Members:	D.Gerelmaa, Independent Member of the Board
	Ts.Baatarsaikhan, Member of the Board

CORPORATE GOVERNANCE

ANNUAL REPORT, 2018

The Nomination Committee held 2 regular meetings in 2018, and discussed 9 issues, producing 11 decisions and 2 resolutions. Within its key responsibilities, the committee delivered 9 recommendations to the company's leadership.

This year, the committee has conducted a self-assessment of the Board, based upon which the committee discussed future actions to improve the Board and its committees' operations. Moreover, the committee conducted the self-assessment of the Company, which was published on the webpages of our company and the Mongolian Stock Exchange.

In order to supply our company with human resource that is capable of providing highly skilled leadership who can guarantee sustainable operations of the company, the committee has finalized the company's "Policy on Authorized Officials," which contains 7 articles concerning the selection of job positions consistent with their roles, and determining their salary levels, and preparation for their succession.

Furthermore, based on the committee's recommendation, 2 training workshops for the company's management team were organized.

RENUMERATION COMMITTEE

The Remuneration Committee has the key responsibility of assisting the Board with formulating and determining the salary and remuneration of the Board Members, Chief Executive Officer, and other upper level management personnel; the committee also assists the board in formulating companywide policy for salaries and wages and to provide proposals and recommendations in accordance with laws, rules, and regulations.

MEMBERS

Head of the Salary and Remuneration Committee :	D.Gerelmaa, Independent Member of the Board
Members:	Takeshi Kambe, Independent Member of the Board
	J.Oyunchimeg, Member of the Board

ANNUAL REPORT, 2018

The Remuneration Committee held 2 regular meetings in 2018 and discussed 7 issues and made 7 decisions. Also, the committee delivered 15 recommendations to the company's leadership.

The committee has reviewed on half-year basis the reports on the company's works regarding salary, wages, and social welfare. It provided decisions and recommendations for renewing the incentive system linked to work efficiency and setting the company's minimum and maximum wage levels.

Within its key responsibilities, the committee has monitored the previous year's implementation of salary and remuneration in addition to having approved the budget for the next year's salary and remuneration. Moreover, under the guidance of the committee, the company has begun to gradually enroll its employees into health insurance plans.

INTERNAL AUDIT DIVISION

Our Internal Audit Division acts as a representative of the shareholders, on whose behalf it independently monitors the company's operations. The department reports its activities to the Risk and Audit Committee of the Board of Directors every quarter.

Through independent compliance and performance auditing, the internal audit division cooperates with the management team to resolve each and every case and identifies and mitigates potential risks.

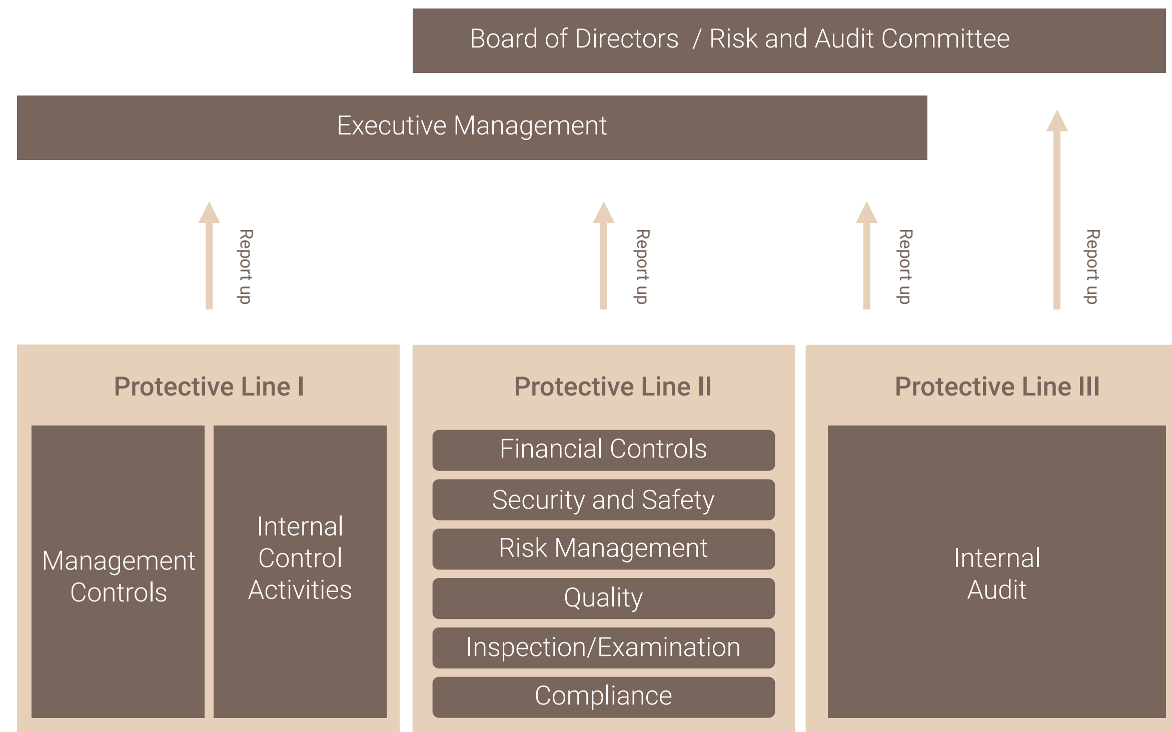
Highlights from 2018:

- By introducing the world's latest trends in terms of international internal auditing professional practices into our auditing process, we identified 155 issues, determined their risks, and delivered our recommendation regarding how best to mitigate them.
- We cooperated with management from every stage in order to mitigate and eliminate risks; and resolved issues that were detected with 82 percent completion rate.
- Updated internal auditing rules in accordance with the standard and applied these rules into our operations.
- Assisted the Board of Directors with carrying out its duty to provide internal control by evaluating the company's internal controls through the internationally recognized internal control system, "COSO Internal Control-Integrated Framework."

In the future, the Internal Audit Division will carry out independent and objective assurances and consulting activities in accordance with the International Standards on Professional Auditing Practice, provide quality assurance internally, and prepare qualified human resources to enhance the value of the company. The division shall also assess the company's risk management, governance and monitoring systems with internationally accepted models and methodologies and will assist the Board of Directors and Management to provide internal controls by providing them with accurate and reliable information.

INTERNAL CONTROL SYSTEM

Our company organizes its internal controls using the "3 lines of Protection" model. This model is essential for the management of every state to plan, execute, and report their fundamental daily duties and tasks.



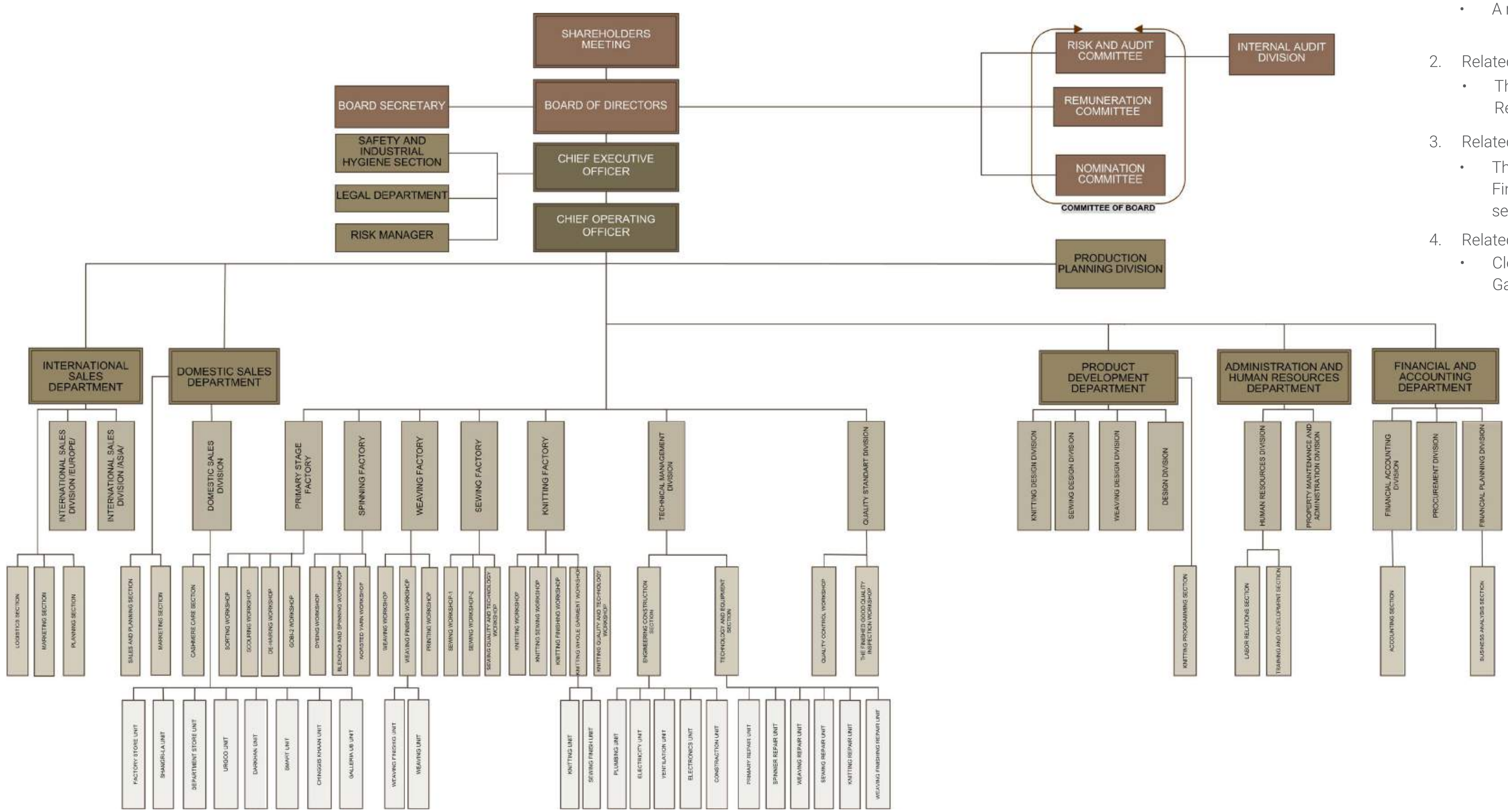
Protective Line I:
The unites that carry out the company's core operations implement and report up the daily controls in accordance with the duties assigned to them by the executive management.

Protective Line II:
The units that support the core functions of the company also implement and report up the daily controls in accordance with the duties assigned to them by the executive management.

Protective Line III:
The internal audit verifies whether the internal control systems being pursued by the executive management are effective or not and whether they are being put into effect or not, and reports to Risk and Audit Committee in terms of the core responsibilities and to the Executive Management in terms of administration.

With this model being implemented, we are able to insure the independence of internal auditing processes, thereby eliminating undue influence from our company's operations.

COMPANY ORGANIZATIONAL STRUCTURE



MAIN CHANGES MADE TO THE COMPANY'S STRUCTURE AND ORGANIZATION

1. Related to Senior Management:
   - A new Legal division was created with additional legal staff.
2. Related to the Human Resources and Administration Department:
   - The Human Resource division has now gained Labor Relations and Training and Development Offices.
3. Related to Finance and Accounting Department:
   - The Financial Planning division has been newly created and Financial Accounting division has now gained Accounting section.
4. Related to Domestic Sales Department:
   - Closed the "Coat House" branch and launched the new Galleria Ulaanbaatar branch store.
5. Related to International Sales Department:
   - The Marketing Planning Department was divided into Planning Department and Marketing Department.
6. Related to Primary Processing Factory:
   - The new Gobi-2 office was created to expand the operations of the primary production.
7. Related to Weaving Factory:
   - Textile processing department now has two units, the textile manufacturing unit and textile processing unit.
8. Related to Knitting Factory:
   - The 1st and 2nd units of the knitting factory were merged resulting in 5 new units which are: Knitting unit, Sewing Unit, Finishing Unit, Knitwear Quality Inspection Unit, Whole Garment and Fine Gauge Unit.

SUBSIDIARY INFORMATION

№	Subsidiary name	Shares owned by Gobi Corporation	Year founded	Location	Operations
1	Gobi Cashmere Europe GmbH	100%	2016.11.07	Schoenefeld, Germany	Trading and services
2	Gobi Cashmere Inner Mongolia Co.,Ltd	100%	2016.12.19	Erlian, China	Trading and services
3	Gobi Cashmere SPRL	100%	2017.01.17	Brussels, Belgium	Trading and services

TOP MANAGEMENT AND KEY PERSONNEL

BAATARSAIKHAN TSAGAACH

Chief Executive Officer

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 Corporation since August 2018

SURENRAGCHAA NYAMJAV

Chief Operating Officer

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 Corporation in April 2015
- Chief operating officer since November 2015

ARIUNAA BATCHULUUN

Deputy Director of International Sales

Graduated from the University of the Humanities as an English language interpreter and from the Columbia College in the US majoring in Business Administration.

- Manager and Director of the Foreign Sales Department of Gobi Corporation between 2009 and 2014
- Deputy Director of International Sales of Gobi Corporation since September 2018

JAVKHLAN BOLD

Director of Domestic Sales

Graduated from the Hitotsubashi University majoring in economics and from Kobe University of Japan with a majoring in Business Administration with a master's degree.

- Development Bank of Mongolia and at Golomt Bank as Risk Officer.
- Was working for Gobi Corporation as Director of Domestic Sales Division since May 2018 before becoming Director of Domestic Sales Department since September

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 Corporation since 2013

BOLORMAA BATSUURI

Director of Product Development

Graduated from the University of Science and Technology of Mongolia majoring in design of sewn products with a master's degree.

- Worked as designer at Darkhan Minj LLC
- Quality inspector at Gobi Corporation in 2007
- Designer at Gobi Corporation 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 Corporation since 2014

TSASCHIKHER TSOGTBAYAR

Head of Legal Department

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 Corporation in 2014
- Head of Legal department since October 2018

SELENGE MUNKHBAT

Board Secretary

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 Corporation since 2017

CAPITAL MARKETS AND THE COMPANY'S STOCK

Gobi Corporation is classified Tier I by Mongolian Stock Exchange and the company's stock has been continuously included in the TOP-20 index in recent years. The closing price of the company's share of 2018 was 43.5% higher than the previous year, the number of shares traded grew by 7.9% from the previous year, and the company's market value reached 260.5 billion MNT, making the company rank fourth among companies listed on the Mongolian Stock Exchange.

ABOUT SPLITTING THE SHARES

To increase the liquidity of the stocks, spur their trade, increase their market value, and to increase the number of shareholder investors, the Special Meeting of Shareholders of the Gobi Corporation decided to split the company's shares 100 on 3rd of October, 2018 (attendance of 88.72%). The issue was approved by 99.99% vote.

"Golomt Capital," a Securities company, provided consultancy services for the project to split shares, while "Anand Advocates" Law Firm provided legal consultancy for the project.
Based on the decision of the Special Shareholders Meeting, the Financial Regulatory Commission, on its meeting of November 30, 2018, discussed and approved the issue of splitting the Gobi Corporation's shares. Consequently, trading of the company's shares was halted temporarily from December 1, 2018 to December 13, 2018. Trading resumed on December 14, 2018 after the changes to the registry of the shares were made.

Post scriptum: The reported price of shares reflects the converted price for stock split into 100.

52 WEEKS SHARE TRADING AND PRICES

INDICATOR	2018	2017	2016	Growth 2018/2017	Growth 2017/2016
NUMBER OF SHARES	780,112,500	7,801,125	7,801,125	ordinary shares	
SHARE PRICE /MNT/ *					
Annual closing price	333.89	232.60	101.50	43.5% ↑	129.2% ↑
Annual peak price	369.77	351.80	116.50	5.1% ↑	202.0% ↑
Annual bottom (lowest) price	205.20	96.00	71.00	113.8% ↑	35.2% ↑
Annual average price	266.80	165.35	85.40	61.4% ↑	93.6% ↑
TRADING VOLUME /number of shares/					
Highest daily volume	428,390	15,286	4,899	2,702.5% ↑	212.0% ↑
Lowest daily volume	18	1	1	1,700.0% ↑	0.0%
Average daily volume	7,862	579	273	1,257.9% ↑	112.1% ↑
Total	1,886,927	140,047	59,302	1,247.4% ↑	136.2% ↑
TRADING VOLUME /MNT transaction value/					
Highest daily volume	328,449,260	309,023,660	40,171,855	6.3% ↑	669.3% ↑
Lowest daily volume	429,000	13,910	8,200	2,984.1% ↑	69.6% ↑
Average daily volume	17,980,871	10,739,199	2,369,085	67.4% ↑	353.3% ↑
Total	4,315,409,014	2,598,886,145	514,091,470	66.0% ↑	405.5% ↑
MARKET CAPITALIZATION /MNT/	260,471,762,625	181,454,167,500	79,181,418,750	43.5% ↑	129.2% ↑

** Due to the splitting of the Gobi Corporation's shares into 100, the real price of stocks before the split was converted into the price that reflects the split into 100.*

Since the stock split, the liquidity of Gobi Corporation's stocks improved and compared to the previous year, the average number of stocks traded daily increased by 13.6 times; the amount of daily average trade grew by 67.4 percent and the weighted average closing price of the shares increased by 61.4 percent.

DIVIDENDS

Our company strives to maintain its position in the domestic market, as well as to increase its market share; moreover, to expand into the international markets, the company endeavors to renew its equipment and technology and improve its product quality and expand its operations. As such, the company follows a policy of continuously increasing the return on investment of its shareholders and distributes dividends regularly.

Years with dividends	Number of shares	Dividend per share /MNT/	Total dividends distributed /MNT/	Dividend distribution channel
1996	7,801,125	61.00	475,868,625	Dividends issued prior to the privatization of Gobi Corporation in 2007 where all distributing at headquarters of Gobi Corporation.
1997	7,801,125	153.80	1,199,813,025	
1998	7,801,125	150.00	1,170,168,750	
1999	7,801,125	166.00	1,294,986,750	
2000	7,801,125	100.00	780,112,500	
2001	7,801,125	20.16	157,270,680	
2005	7,801,125	60.00	468,067,500	
2006	7,801,125	60.00	468,067,500	
2010	7,801,125	100.00	780,112,500	100 percent of dividends were distributed through the central depository of securities.
2011	7,801,125	100.00	780,112,500	
2012	7,801,125	125.00	975,140,625	
2013	7,801,125	130.00	1,014,146,250	
2014	7,801,125	140.00	1,092,157,500	
2015	7,801,125	140.00	1,092,157,500	
2016	7,801,125	200.00	1,560,225,000	
2017	7,801,125	220.00	1,716,247,500	
2018	**780,112,500**	**6.80**	**5,304,765,000**	Starting on the 25th of April 2019 the dividend of 2018 will be distributed at the company's headquarters to every shareholder. Every certified owner of Gobi Corporation shares may choose either cash or bank wire to receive their dividend. Any unclaimed dividends at the end of 2019 will be distributed to all remaining shareholders through the central depository of securities.

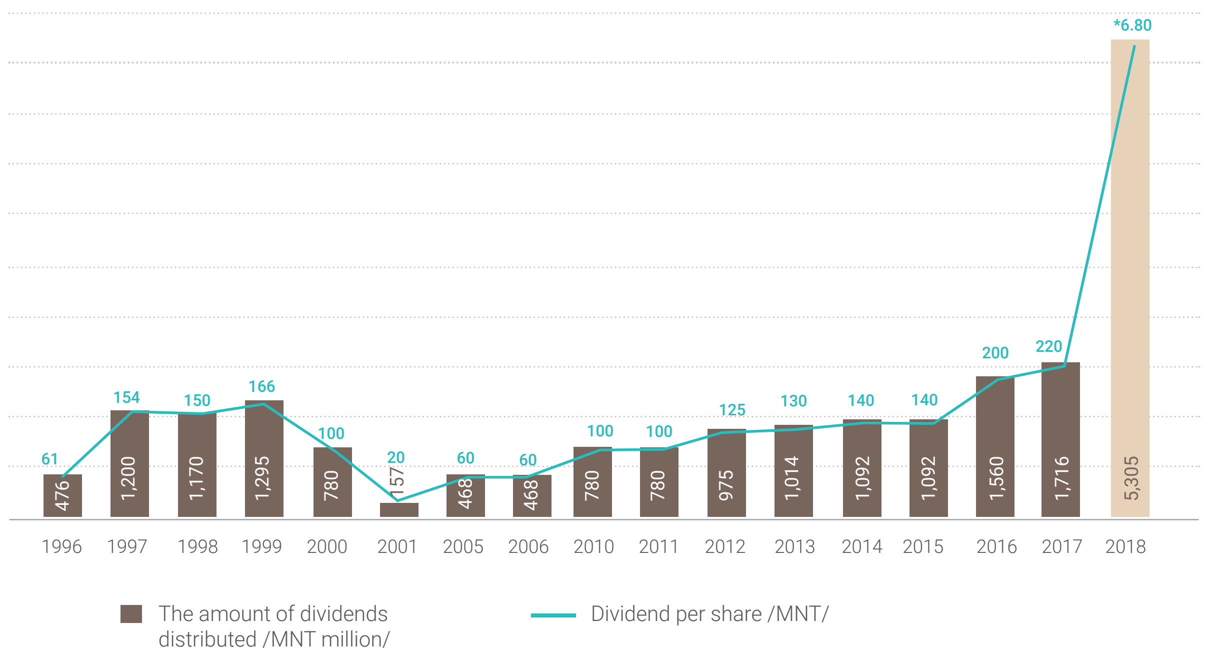
Post scriptum: With the company's stock being split into 100 in 2018, the company has 780,112,500 ordinary shares.

DECLARED DIVIDEND IN 2018

In accordance with the resolution number 2 made on February 13, 2019 by the Board of Directors of Gobi Corporation, it was decided that a total of 5,304,765,000 MNT in dividends or 6.8 MNT per share shall be distributed to shareholders, an amount equal to 30 percent of net profit. This amount shows that dividend per share has grown by 3 times compared to the previous year.

Dividends shall be distributed to all shareholders who have the right to participate in the regular shareholders' meeting by March 28, 2019, the date of registry for such shareholders.

Starting from April 25, 2019, the dividend declared by the company shall be distributed to shareholders at any time when asked by the shareholder either via cash or will be transferred into a current account without delay. Moreover, at the end of 2019, the balance of dividend will be calculated; and if necessary, the dividend may be transferred to the shareholders' securities account through the intermediary of Securities Depository Center.



** Given the stock split in 2018, the size of growth of dividends declared in 2018 was converted in order to make it comparable to the previous years.*

SUSTAINABILITY

SUSTAINABLE DEVELOPMENT

As a leading company in the cashmere industry, Gobi Corporation strives to contribute significantly to the development of its own industry as well as that of the nation. We always aim to foresee potential adverse risks that may cause harm to the environment and strive to mitigate such risks. We also endeavor to promote social responsibility by cooperating with local authorities and herders to support the proper usage of pastureland, to search for and introduce environmentally friendly technology, and to engrain the proper use of resources.

For these purposes, we seek to connect our operations at every level to key indicators of sustainable development and engrain them into our business. This will help us create a healthy circle which will further strengthen our operations, allowing us to become a company that creates wealth that will pass on to our nation's future generations.

What we have done in terms of sustainable development:

- In 2017, we became a member of the international NGO, Sustainable Fibre Alliance (SFA), which is an alliance for sustainable cashmere. As such, we are implementing the "Provisions for livestock care and animal husbandry and on the proper usage of pastureland," in addition to cooperating with herders and cooperatives in order to create the competency for the supply of cashmere that is consistent with sustainable development concepts.
- In 2018, with the goal of contributing to Mongolia's sustainable development and strengthening our status as a company, Gobi Corporation joined Mongolia's leading companies in creating the Center for the development of corporate governance. Also, in cooperation with the Konrad Adenauer Foundation of Germany, we took part in the "Combined initiative of companies that contribute to Mongolia's sustainable development by promoting corporate social responsibility."
- Moreover, in order to achieve sustainable development goals within the company, we have appointed a "Sustainable Development Team" and began to implement a number of actions step by step.

KEY HIGHLIGHTS IN TERMS OF SUSTAINABLE DEVELOPMENT INITIATIVE IN 2018

LAUNCHED "FROM A CITY OF HERDERS TO A WORLD BRAND" PROJECT IN COOPERATION WITH THE SUSTAINABLE CASHMERE AND WOOL ALLIANCE, THE SFA.

This project was launched to improve animal husbandry and pastureland usage at the red goat's cooperative of Delgerhiin in Dornogobi aimag and the "torgon" herd cooperative in Zalaa Jinst of Bayankhongor aimag.

Within the framework of this project, we have organized a training of trainers, introduced the project to the cooperatives, conducted training about animal husbandry and pastureland usage, and gave instruction to the cooperatives about how to train their members.

In the future, we shall independently evaluate how the cooperatives are carying for their animals, and how they are using pastureland. In addition, through training and independent evaluations, we shall identify and resolve issues that herders deem neceesary to be dealt with. The project will continue until June 2020.

IMPROVED THE WASTE MANAGEMENT

Gobi Corporation has signed a contract with "Eko-Orchin" LLC, which transports the company's domestic waste, while "Element" LLC transports and treats Gobi Corporation's hazardous waste.

The waste management was improved in 2018, renewing the waste points with seal in order to prevent it from penetrating into the soil and the road to the waste point was improved with gravel bed maintenanance.

Also, waste is classified into 4 categories: paper, plastic, silt, and other. The company implements waste management that reduces waste at its origin by separating waste and sending recyclable waste to the recycling factory.

INCREASED SUSTAINABLE JOBS TO SUPPORT ECONOMIC GROWTH

In 2018, we have increased our production capacity by adding 384 new positions. From a total of 384 people who participated in the training for operating the kettle machine, 164 are working as full-time employees.

Furthermore, we are employing women who live in remote areas by providing them with paid training and living accommodation.

Going forward, we are seeking to introduce the following to our operations: Environmentally-friendly production management system ISO 14001:2015 standard, Occupational health and safety management system ISO 45001:2018 standard.

SOCIAL RESPONSIBILITY

Gobi Corporation applies hight standards of social responsibility to all of this actions and carries out its business operations with honesty and integrity.

We are committed to strictly enforming laws and regulations, conducting our business in an environmentally friendly way, and supporting works that are directed toward the well being of the community. In addition, we provide safe and comfortable work environment where our employees may learn and grow, while also focusing on and addressing their social issues they face.

WORKS COMPLETED IN 2018 IN TERMS OF CORPORATE SOCIAL RESPONSIBILITY

RENEWED THE COMPANY'S CORPORATE SOCIAL RESPONSIBILITY

The Gobi Corporation's social responsibility policy was renewed; and it was decided that a 1,000 MNT for every cashmere coat and jacket to be saved and later spent for the welfare and well being of society.

STARTED THE WORK THAT WILL SUPPORT A KINDERGARDEN FOR CHILDREN WITH DISABILITIES

We fully furnished the "Light Therapy Room" in the 10th kindergarden for disabled children with the designated equipment in accordance with international standards. In the future, we shall support this kindergarden's classroom furnishing, design works, and the supply of the necessary equipment.

CREATED AN ENVIRONMENT CONDUCIVE TO DISABLED INDIVIDUALS

We are pursuing in stages a work to make shall provide the work environment that disabled individuals can work without needing others help.

PREPARED THE HUMAN RESOURCES FOR THE FUTURE

In terms of our cooperation with the education sector, to organize paid and unpaid internships at the factory; to cooperate with training centers, college, and universities.

In 2018, a total of 237 students completed short term internships and 54 students done long term internships, while 13 of these students received a job offer. As of now, 11 out of these students who received job offer are working for our company.

We also provided a kettle machine for the laboratory of the Mongolian-Korean polytechnic college and set the foundation for a stable workforce of future.

DEVELOPED OUR EMPLOYEES BY HAVING THEM PARTICIPATE IN TRAINING IN OVERSEAS

In order to create conditions for the growth and development of our employees who are the company's valuable assets, in 2018, a total of 32 employees participated in 10 types of trainings in Italy, Japan, Hungary, Germany, and China.

THE WORKERS CAFETERIA WAS RENNOVATED AND EXPANDED

Providing nutritious and healthy food free of charge to our employees is one of Gobi Corporation's advantages, and we have expanded and furnished the employees' cafeteria in 2018. With a maximum of 600 people being served a single shift, it now takes 3 shifts to have all employees eat lunch, rather than 5 shifts, which was the case before.

REGULAR EXERCISE MOVEMENT ON THE WORKPLACE

In order to prevent employees from shortage of movements, both factory and administrative staff have started to practice regular exercise, twice a day.

EMPLOYEES TOOK PART IN PREVENTATIVE HEALTH CHECK UPS

Employees undergo annual medical check-ups to prevent illness and for 2018, we have worked with Seoul Songdo hospital for the second year, where a total of 1,556 employees received free health checkups.

RISK MANAGEMENT

In the terms of governance, the Risk and Audit Committee of the Board is responsible for directing and monitoring the company's operations, from whom the Risk Management team that is appointed has the responsibility to manage risks in daily operations. The Risk Management Team is made up by the company's senior level managers and is headed by the Chief Operating Officer.

In 2018 we followed the risk management principles and guidelines as well as the ISO 31000:2011 standard and COSO guidelines and took the following actions in order to improve the risk management system:

1. THE RISK MANAGEMENT POLICY was approved by resolution No.33 of the Board, dated on 21 December 2018 in order to establish and implement the risk management system as whole.
2. THE RISK MANAGEMENT IMPLEMENTATION PROCEDURE was approved by the order No. A/5008 of the CEO, dated on 14 November, 2018 with the purpose of improving implementation of the risk management.
3. THE RISK MANAGER, a full time job was created to implement and monitor the risk management on daily activities.

RISK MANAGEMENT POLICY

This policy is approved by the Board, regulating the risk management system and particularly, the risk tolerance and identifying the personnel in charge of risk.

Risk assessment matrix:
The potential risk factors which the Company may face are assessed with the consequences and probabilities, arranging the risks in the orders.

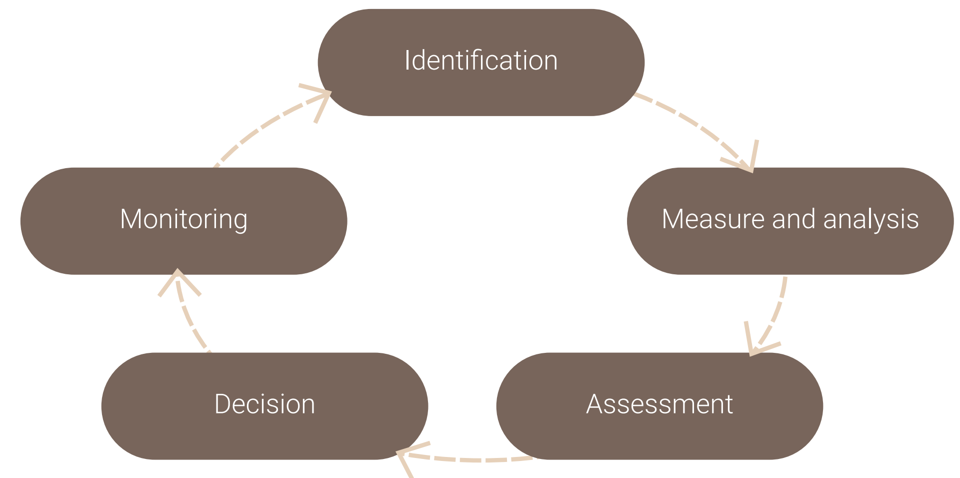
The risks are categorized into 4 levels (low, medium, high and extreme) in 2019.

			Level of Impact				
			Very low	Low	Medium	High	Very high
			1	2	3	4	5
Probability of Occurrence	Very high	5	5	10	15	20	25
	High	4	4	8	12	16	20
	Medium	3	3	6	9	12	15
	Low	2	2	4	6	8	10
	Very low	1	1	2	3	4	5

- Green: Low risk /the risk can be tolerated under control. Head of Departments and Factories will be in charge of managing the risk. /
- Yellow: Medium risk /the risk will be under permanent control. Head of Divisions and COO will be in charge of managing the risk. /
- Orange: High risk /the risk will be under permanent control. Risk management team will be in charge of managing the risk. /
- Red: Extreme risk /Actions will be taken to avoid from the risk. If the risk has happened, the actions will be taken to eliminate the risk consequences immediately. The Board and CEO will make decisions and implement the monitoring actions to manage residual risks regularly. /

RISK MANAGEMENT IMPLEMENTATION PROCEDURE

In order to manage risks, the 5-stage actions are implemented.



The procedure is updated as:

- The methods improved to identify, measure, assess and monitor the risks.
- Risk categories are established and criteria developed and updated to measure risks and its cycles.
- Options of risk measures and systematic decision making processes are identified in the procedure.

2018 RISK MANAGMENET REPORT

There were 203 risks identified in total in the Company in 2018. If we classify the risks with the consequences:

Before monitoring
- High-28
- Medium-137
- Low-38

After monitoring
- High-2
- Medium-79
- Low-122

Changes
- High risk lowered 14 times
- Medium risk lowered 1.7 times and transferred to the low risk category

The risks are transferred into the lower categories thanks to contribution from the risk management team and the entire workforce. It's the present policy to control the risks, which are newly categorized as low, under the monitoring permanently and take actions not to allow them to grow to the next level, which is medium.

However, the risks of external factors namely the raw material price growth and foreign exchange loss are still remaining.

The Risk management team and the Emergency response team members will take actions as per the "Emergency response plan" in case of natural disasters and/or other unpredicted circumstances. The Risk management team will detect and assess the risky factors which the Company could face on quarterly basis and take necessary actions promptly.

QUALITY MANAGEMENT

GOBI Corporation 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.

We will introduce the international quality standard ISO 9001:2015 in 2019 and be planning to prepare for introduction of the Environment management system standard ISO 14001:2015 and the Occupational health and safety standard ISO 45001:2018.

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 17025:20007) "Measuring laboratory" certification

in 1999 - ISO/IEC 17025:2005 (MNS ISO/IEC 17025:20007) "Integrated laboratory" certification

GOBI JSC AND
ITS SUBSIDIARIES

CONSOLIDATED
FINANCIAL REPORT

INDEPENDENT AUDITOR

The Risk Audit Committee of Gobi Corporation 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 2018 of Gobi Corporation. 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: 110,000,000 /MNT 110 million/

GOBI JSC AND ITS SUBSIDIARY CONSOLIDATED FINANCIAL REPORT

GOBI
MONGOLIAN CASHMERE

GOBI JSC AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2018

GOBI JSC AND ITS SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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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: 2019.03.07 Ref: 01/138

Re. your ref. ______ dated ______

STATEMENT BY EXECUTIVES

We, Baatarsaikhan Tsagaach is the Chief Executive Officer of Gobi JSC and its subsidiaries ("the Group"), and Selenge Ganbold the Director of Financial Department , being the officers primarily responsible for the financial reporting of the Group, do hereby state that, in our opinion, the accompanying financial statements set out on pages 1 to 47 are drawn up in accordance with applicable International Financial Reporting Standards so as to present fairly view of the consolidated financial position of the Group as at December 31, 2018 and of the consolidated financial performance and the cash flows of the Group for the year then ended.

Baatarsaikhan Tsagaach	Selenge Ganbold
Chief Executive Officer	Director of Financial Department

Deloitte.

Deloitte Onch Audit LLC
15th floor, ICC Tower
Jamiyan Gun Street
Sukhbaatar district, 1st khoroo
Ulaanbaatar, 14240
Mongolia

Tel: +976 70100450
+976 70120450
Fax: +976 70130450
www.deloitte.com

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 2018, 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 2018, 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
Inventory provision for slow moving stock 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 2018 amounted to MNT 142,538,944 thousand (net of allowance for slow moving and obsolete items of MNT 856,406 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.

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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 As at 31 December 2018, the provision for impairment on Financial Assets at Amortised Cost is MNT 462,385 thousand. This represents the estimation of expected losses at the year end. As of 1 January 2018, the Group adopted the accounting standard "IFRS9: Financial instruments". The adoption of IFRS 9 did not determine a reclassification of financial asset, however resulted in the implementation of an Expected Credit Loss (ECL) model. The determination of appropriate provisions for impairment is a key audit matter as it requires management judgement, is subject to estimation uncertainty and relies on available data. The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in notes 2.10 and 3.2 to the consolidated financial statements. As disclosed in notes 3 and 6 to the consolidated financial statements, the carrying value of accounts and other receivables at 31 December 2018, the only financial assets for which a provision has been accounted for, amounted to MNT 12,183,569 thousand (net of allowance for loss allowance of MNT 462,385 thousand).	To consider whether management's estimation methodology was appropriate we: • We undertook an assessment of the Group's new provisioning methodology and compared it with the requirements of IFRS 9. • We tested the completeness and accuracy of data inputs. • We reviewed the IFRS 7 disclosures for compliance with the amendments relating to IFRS 9. As a result of our work we considered the impairment provision to be in a reasonable range.

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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.

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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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.

DELOITTE ONCH AUDIT LLC

Norjinbat Shagdarsuren
Director, CPA
Deloitte Onch Audit LLC
7 March 2019

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	5	4,940,940	7,183,762
Accounts and other receivables	6	12,183,569	11,644,199
Prepayments and advances	7	4,690,681	2,811,450
Inventories	8	142,538,944	101,271,760
Right to returned goods assets	9	268,017	-
		164,622,151	**122,911,171**
Non-current assets			
Property, plant and equipment	10	82,380,060	57,274,775
Deferred tax assets	22.3	1,250,554	83,931
Other non-current assets	12	355,697	459,043
		83,986,311	**57,817,749**
Total Assets		**248,608,462**	**180,728,920**
LIABILITIES AND OWNERS' EQUITY			
Current liabilities			
Accounts and other payables	13	4,741,052	6,372,509
Corporate income tax payable	22.2	1,755,234	1,971,410
Refund liability	14	466,329	-
Contract liabilities	13.1	1,037,239	-
Borrowings	15	113,722,628	40,469,033
		121,722,482	**48,812,952**
Non-current liabilities			
Long term payable	16	3,231,805	-
Borrowings	15	6,000,000	30,202,780
		9,231,805	**30,202,780**
Total Liabilities		**130,954,287**	**79,015,732**
Owners' Equity			
Share capital	17	780,113	780,113
Revaluation surplus	20	15,647,697	15,647,697
Foreign currency translation reserve	21	(135,203)	(28,274)
Retained earnings		101,361,568	85,313,652
		117,654,175	**101,713,188**
Total Liabilities and Owners' Equity		**248,608,462**	**180,728,920**

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

1

GOBI JSC AND ITS SUBSIDIARY CONSOLIDATED FINANCIAL REPORT

GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2018	2017
Revenue	23.1	173,439,375	124,425,107
Cost of sales	23.2	(102,147,527)	(73,880,650)
Gross profit		71,291,848	50,544,457
Finance and other income	24	542,045	848,816
Other (losses) and gains	25	(6,561,605)	(571,863)
Interest expense		(10,521,942)	(6,496,773)
Selling and marketing expenses	23.3	(20,210,195)	(12,121,296)
General and administrative expenses	23.3	(11,290,196)	(8,761,080)
Impairment losses on financial assets		(1,523)	-
Profit before taxation		**23,248,432**	**23,442,261**
Income tax expense	22	(5,484,268)	(5,939,277)
Net profit for the year		**17,764,164**	**17,502,984**
Other comprehensive expense that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign subsidiaries	21	(106,929)	(28,274)
Other comprehensive expense for the year		**(106,929)**	**(28,274)**
Total comprehensive income for the year		**17,657,235**	**17,474,710**
			(restated)
Earnings per share - basic	19	**0.02**	**0.02**
Earnings per share - diluted		**0.02**	**0.02**

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

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GOBI JSC AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	Share Capital	Revaluation surplus	Foreign currency translation reserve	Retained Earnings	Total equity
			(note 20)	(note 21)		
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	21	-	-	(28,274)	-	(28,274)
Total comprehensive income for the year		-	-	(28,274)	17,502,984	17,474,710
Declared dividend	18	-	-	-	(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**
Net profit for the year		-	-	-	17,764,164	17,764,164
Other comprehensive expense	21	-	-	(106,929)	-	(106,929)
Total comprehensive income for the year		-	-	(106,929)	17,764,164	17,657,235
Declared dividend	18	-	-	-	(1,716,248)	(1,716,248)
Balance as of 31 December 2018		**780,113**	**15,647,697**	**(135,203)**	**101,361,568**	**117,654,175**

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 2018
(IN THOUSANDS OF MONGOLIAN TOGROGS)

	Notes	2018	2017
Cash flows used in operating activities			
Profit for the year		17,764,164	17,502,984
Adjustments for:			
Depreciation and amortization	10, 12.1	6,558,878	5,633,556
Income tax expense	22	5,484,268	5,939,277
Interest expense		10,521,942	6,496,773
Interest income	24	(228,987)	(606,757)
Loss from foreign exchange rate differences		5,394,904	149,478
Impairment loss on financial assets	6.3	1,523	-
Provision/(reversal) of inventories allowance	8	120,103	(169,909)
Loss from disposal of property, plant and equipment	25	181,707	181,228
Compensation from insurance reimbursement in excess of property plant and equipment written off and inventories written down	25	-	(383,784)
		45,798,502	34,742,846
Increase in accounts and other receivables		(1,146,933)	(5,545,377)
Increase in prepayments and advances		(1,564,247)	(353,745)
Increase in inventories		(41,387,287)	(43,127,472)
Increase in right to returned goods asset		(268,017)	-
Increase in accounts and other payables		439,989	2,235,534
Decrease in contract liabilities and refund liabilities		(134,913)	-
		1,737,094	(12,048,214)
Income tax paid	22.2	(6,867,067)	(6,312,721)
Interest paid		(9,444,335)	(6,183,446)
Net cash flows used in operating activities		**(14,574,308)**	**(24,544,381)**
Cash flows (used in)/from investing activities			
Interest received		228,987	606,757
Proceeds from sale of property, plant and equipment		99,506	245,456
Proceeds from insurance reimbursement		-	4,400,000
Acquisition of property, plant and equipment		(28,077,935)	(14,530,295)
Acquisition of other non-current assets	12.1	(105,736)	(38,503)
Advances provided to related parties	26.2	(3,000,314)	(11,430,480)
Repayment of advances from related parties	26.2	3,000,314	25,430,480
Net cash flows (used in)/from investing activities		**(27,855,178)**	**4,683,415**
Cash flows (used in)/from financing activities			
Proceeds from borrowings	15.2	186,137,535	100,162,894
Repayment of borrowings	15.2	(144,231,210)	(74,023,755)
Payment of dividends	18	(1,717,781)	(1,681,761)
Advances received from related parties	15.2	5,586,782	17,046,070
Repayment of advances to related parties	15.2	(5,586,782)	(17,046,070)
Net cash flows from financing activities		**40,188,544**	**24,457,378**
Effects of exchange rate changes on cash		(1,880)	(26,920)
(Decrease)/increase in cash and cash equivalents		**(2,242,822)**	**4,569,492**
Cash and cash equivalents, at the beginning of the year		**7,183,762**	**2,614,270**
Cash and cash equivalents, at the end of the year	5	**4,940,940**	**7,183,762**

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

4

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(IN THOUSANDS OF MONGOLIAN TOGROGS)

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 is Tavan Bogd Cashmere LLC and its ultimate controlling party is Mr. Baatarsaikhan Tsagaach.

The consolidated financial statements as of and for the year ended 31 December 2018 comprises the Company and its subsidiaries (together referred to as the "Group").

The subsidiaries of the Group are set out in Note 11.

During the years ended 31 December 2018 and 2017, the Group's primary operations consisted of production and selling of cashmere knitwear, sewn and woven products, raw materials, semi products and provision of related services such as dry cleaning and sewing, knitting service.

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 7 March 2019.

2. Summary of significant accounting policies

2.1 Statement of compliance

The consolidated financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

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.

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

GOBI JSC AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(IN THOUSANDS OF MONGOLIAN TOGROGS)

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

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.

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, 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.

(IN THOUSANDS OF MONGOLIAN TOGROGS)

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

2.6 Property, plant and equipment (cont'd)

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	10 to 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.

2.7 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, and 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.

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

2.8 Impairment of tangible and intangible assets (cont'd)

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.

2.9 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

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

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

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

2.10.1 Classification of financial assets

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

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

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

2.10 Financial assets (cont'd)

2.10.1 Classification of financial assets (cont'd)

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

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

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

(i) Amortised cost and effective interest method

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

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

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

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

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

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

2.10 Financial assets (cont'd)

2.10.2 Impairment of financial assets

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

The Group always recognises lifetime ECL for trade receivables. Except for those which had been determined as credit impaired under IAS 39, trade receivables have been assessed individually with outstanding significant balances not secured and exceeding MNT 400 million, the remaining balances are grouped based on past due analysis.

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

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

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

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

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

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

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

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

2.10 Financial assets (cont'd)

2.10.2 Impairment of financial assets (cont'd)

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

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

(ii) Definition of default

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

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of expected credit losses

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

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

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

2.10 Financial assets (cont'd)

2.10.2 Impairment of financial assets (cont'd)

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

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

2.10.4 Classification of financial assets (before application of IFRS 9 on 1 January 2018)

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.

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

2.10 Financial assets (cont'd)

2.10.4.2 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.

2.10.4.3 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.

2.10.4.4 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.

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

2.10 Financial assets (cont'd)

2.10.4.4 Impairment of financial assets (cont'd)

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.

2.11 Financial liabilities and equity

2.11.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity 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

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

2.11.3.1 Financial liabilities measured subsequently at amortised cost

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

2.11.3.2 Derecognition of financial liabilities

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

2.12 Revenue recognition

<u>Revenue from contracts with customers (upon application of IFRS 15)</u>

The Group recognises revenue from the following major sources:
a) Sale of goods;
b) Service income;
c) Other revenue.

Service income mainly refers to dry cleaning and sewing service provided to a related party and other local customers.

Other revenue mainly comprise the sale of raw material and semi products.

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

2.12 Revenue recognition (cont'd)

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

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

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

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

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

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

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.
A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

2.12.1 Sale of goods

Sale of goods

The Group sells cashmere, knitwear, sewn and woven products to wholesalers and to retail customers.

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

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

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

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

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

2.12 Revenue recognition (cont'd)

The Group uses its accumulated historical experience to estimate such returns on a portfolio level using the expected value method.

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

2.12.2 Service income

Revenue is recognised over time as the services are provided because the customers simultaneously receive and consume the benefits provided by the Group's performance as the Group performs.

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

2.12.3 Other revenue

Other revenue is recognised when customers obtain control of products being the raw materials when the goods are dispatched from the Group's warehouse. Invoices are generated and revenue is recognised at that point in time. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises other revenue when the performance obligation is satisfied and in particular when it transfers control of a product or service to a customer and in particular when the goods have been shipped to the customer's specific location (delivery).

2.12.4 Assets and liabilities arising from right of return

Right of return assets

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

Refund liabilities

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

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

2.12 Revenue recognition (cont'd)

Revenue recognition (prior to 1 January 2018)

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.

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.

Rental income

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

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.

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.

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

2.14 Foreign currencies (cont'd)

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.

2.18 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.

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

2.18 Provisions (con'td)

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.

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.

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

2.21 Taxation (cont'd)

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.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

3.1 Critical accounting judgements

3.1.1 Useful life of land and depreciation

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

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

The Group paid an upfront fee when the Group first signed the land agreement. Historically, the Group successfully renewed the lease upon expiry at minimal cost, if any. The 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 (2017: MNT 2,576,718 thousand) is stated at the revalued amount less accumulated impairment and is not depreciated.

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

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 Calculation of loss allowance

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

As at 31 December 2018, the carrying amount of accounts and other receivables is MNT 12,183,569 thousand, net of loss allowance of MNT 462,385 thousand (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).

3.2.2 Inventory provision for slow moving stock

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

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

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

As at 31 December 2018, the carrying amount of inventories is MNT 142,538,944 thousand, (excluding right to returned goods assets of MNT 268,017 thousand) net of provision for inventories of MNT 856,406 thousand, (31 December 2017: the carrying amount of inventories is MNT 101,271,760 thousand, net of provision for inventories of MNT 736,303 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.

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

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 10.2.

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 2018.

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

The adoption of the above standards does not have any impact other than the below mentioned IFRS.

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application is 1 January 2018. The Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings.

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the no reclassifications of financial assets have had any impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

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

Impact of initial application of IFRS 9 Financial Instruments (cont'd)

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under IAS 39, trade receivables with on history of default have been assessed individually, the remaining balances are grouped based on past due analysis.

The Group' Management has performed an assessment and concluded that the impact due to the application of IFRS 9 is non-significant.

Impact of application of IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018.

Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and the related interpretations.

Summary of effects arising from initial application of IFRS 15

The directors of the Group reviewed and assessed the Groups existing open contracts as at 1 January 2018 based on the facts and circumstances that existed at that date.

As at 1 January 2018, accounts payable of MNT 1,638,481 thousand was reclassified to contract liabilities upon the initial application of IFRS 15.

The application of the new standard has had no a material impact on the Group's consolidated financial statements.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Reclassification	Amounts without application of IFRS 15
Current liabilities			
Account and other payables	4,741,052	1,037,239	5,778,291
Contract liabilities	1,037,239	(1,037,239)	-

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

Impact of application of IFRS 15 Revenue from Contracts with Customers (cont'd)

Impact on the consolidated statement of cash flow

	As reported	Reclassification	Amounts without application of IFRS 15
Profit for the year	17,764,164	-	17,764,164
Operating cash flows before movements in working capital:			
Increase in accounts and other payables	439,989	(134,913)	305,076
Decrease in contract liabilities and refund liabilities	(134,913)	134,913	-

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Group is required to determine the date of transaction for each payment or receipt of advance consideration. There is no material impact on the consolidated financial statements.

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

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 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 2020	Amendments to IFRS 3 *Definition of Business*
	Amendments to IAS 1 and IAS 8 *Definition of Material*
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.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date.

Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

The Group has not applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 16 Leases (cont'd)

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of MNT 95,455 thousand as disclosed in note 31.2.

In addition, the Group currently considers refundable rental deposits paid of MNT 119,794 thousand as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

5. Cash and cash equivalents

	2018	**2017**
Cash on hand and in bank – Foreign currency	1,656,522	5,539,450
Cash on hand and in bank – MNT	3,284,418	1,644,312
	4,940,940	***7,183,762***

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.

6. Accounts and other receivables

	2018	**2017**
Accounts receivable	12,089,446	12,599,819
Loss allowance	(462,385)	(1,425,547)
	11,627,061	11,174,272
Receivables from related parties (see Note 26.1)	500	8,409
Other receivables	556,008	461,518
	12,183,569	**11,644,199**

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6. Accounts and other receivables (cont'd)

6.1 Accounts receivable

The average credit period on sales of goods is 90 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 always measures the loss allowance for account receivables at an amount equal to lifetime ECL. The expected credit losses on account receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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

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

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

Except for the carrying amount of MNT 460,862 thousand for which the Group carried out a specific assessment and determined an expected credit loss of 100% of the exposure, for all the remaining amount, taking into consideration the defaults historically incurred and adjusted for the forward looking information, the Group determined an expected credit loss on the receivable non past due and non secured for 0.01% of the exposure. Accordingly, expected credit loss of MNT 1,523 thousand is recognised.

6.2 Other receivables

	2018	2017
VAT receivables	403,838	262,406
Receivable from employee	118,920	143,243
Other receivables	33,250	55,869
	556,008	**461,518**

6. Accounts and other receivables (cont'd)

6.3 Loss allowance

The following table shows the movement in lifetime ECL that has been recognised for trade and other receivables in accordance with simplified approach set out in IFRS 9.

	Lifetime ECL (not credit impaired)	Lifetime ECL (Credit impaired)	Total
Balance as at 1 January 2018	-	1,425,547	1,425,547
Net remeasurement of loss allowance	1,523	-	1,523
Amounts written off		(964,685)	(964,685)
Balance as at 31 December 2018	**1,523**	**460,862**	**462,385**

7. Prepayment and advances

	2018	2017
Advance payments to vendors	3,944,070	2,787,958
Prepaid expense	451,308	5,397
Prepaid tax	295,303	18,095
	4,690,681	**2,811,450**

8. Inventories

	2018	2017
Raw materials	55,979,147	41,998,818
Work in progress	32,442,697	21,536,660
Finished goods	40,075,657	27,922,191
Consumables	14,207,691	9,607,192
Goods in transit	690,158	943,202
	143,395,350	102,008,063
Allowance for slow moving and obsolete items	(856,406)	(736,303)
	142,538,944	**101,271,760**

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 94.9 billion (31 December 2017: MNT 72.4 billion).

During the year, the Group capitalized salaries and related staff costs amounting to MNT 20,970 million (31 December 2017: MNT 15,204 million) in inventories.

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8. Inventories (cont'd)

Movement in the allowance for obsolete and slow moving items:

	2018	2017
Balance at beginning of the year	736,303	906,212
Provided allowance for slow moving and obsolete	120,103	44,742
Reversal of items previously provided for	-	(214,651)
Balance at end of the year	**856,406**	**736,303**

Inventories with a carrying amount of MNT 138,009 million (2017: MNT 99.2 million) have been pledged as security for certain of the Group’s bank loan.

9. Right to returned goods assets

	2018	2017
Right to returned goods assets	268,017	-
	268,017	**-**

The right to returned goods asset represents the Group's right to recover products from customers where customers exercise their right of return under the sales agreement. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method.

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10. Property, plant and equipment

	Land	Buildings	Plant and Equipment	Furniture and fixtures	Vehicles	Construction in progress	Total
Cost or valuation:							
1 January 2017	**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 25)	-	(3,490,667)	-	-	-	-	(3,490,667)
Effect of foreign currency exchange differences	-	-	-	27,533	-	-	27,533
Reclassified to the intangible assets (note 12.1)	-	-	-	(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**
Additions	-	6,455,263	15,093,244	1,179,635	316,880	8,758,691	31,803,713
Disposals	-	-	(616,747)	(329,815)	(48,580)	-	(995,142)
Reclassification	-	13,418,999	91,733	30,277	-	(13,541,009)	-
31 December 2018	**2,576,718**	**43,346,764**	**63,928,699**	**4,112,304**	**2,013,922**	**3,458,145**	**119,436,552**
Accumulated depreciation:							
1 January 2017	**-**	**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 25)	-	(237,933)	-	-	-	-	(237,933)
Effect of foreign currency exchange differences	-	-	-	969	-	-	969
Reclassified to the intangible assets (note 12.1)	-	-	-	(13,508)	-	-	(13,508)
31 December 2017	**-**	**1,805,889**	**28,071,080**	**923,731**	**552,506**	**-**	**31,353,206**
Depreciation	-	963,243	4,664,262	602,948	186,762	-	6,417,215
Disposals	-	-	(480,310)	(203,245)	(30,374)	-	(713,929)
Reclassification	-	(51,254)	48,439	2,815	-	-	-
31 December 2018	**-**	**2,717,878**	**32,303,471**	**1,326,249**	**708,894**	**-**	**37,056,492**
Balances:							
31 December 2017	**2,576,718**	**21,666,613**	**21,289,389**	**2,308,476**	**1,193,116**	**8,240,463**	**57,274,775**
31 December 2018	**2,576,718**	**40,628,886**	**31,625,228**	**2,786,055**	**1,305,028**	**3,458,145**	**82,380,060**

The construction in progress pertains to on-going project for factory building and not installed yet equipment of the Group.

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

10.1 Assets pledged as security

As of 31 December 2018, lands, buildings, building under construction and equipment with total carrying amount of MNT 58,984 million (31 December 2017: the carrying amount of MNT 38,455 million) are pledged as security for bank loans. (See Note 15.1).

10.2 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 2018 did not identify material adjustment from the carrying value as at 31 December 2018, 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:

	2018		2017	
	Level 3	Fair value as at 31 December 2018	Level 3	Fair value as at 31 December 2017
Land	2,576,718	2,576,718	2,576,718	2,576,718
Buildings	40,628,886	40,628,886	21,666,613	21,666,613
	43,205,604	**43,205,604**	**24,243,331**	**24,243,331**

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

	2018	2017
Land	300,000	300,000
Buildings	29,834,625	8,295,634

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

	2018	2017
Cost	**9,652,382**	**5,675,205**

10.4 Depreciation and amortisation charged to profit or loss and inventories

Depreciation and amortisation charged to selling and general administrative expenses:

	2018	2017
Depreciation of property, plant and equipment	1,117,579	827,393
Amortisation of intangible assets	141,663	79,513
	1,259,242	**906,906**

During the year, the Group capitalized depreciation expenses amounted to MNT 5,299 million (31 December 2017: MNT 4,727 million) in inventories.

11. Subsidiaries

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group 2018	2017
Gobi Cashmere Europe GmbH	Trading	Germany	100%	100%
Gobi Cashmere Inner Mongolia Co.Ltd	Trading	China	100%	100%
Gobi Cashmere SPRL	Trading	Belgium	100%	100%

12. Other non-current assets

	2018	2017
Intangible assets	235,903	280,115
Deposit placed for lease stores	119,794	169,928
Other assets	-	9,000
	355,697	**459,043**

12.1 Intangible assets

	2018	2017
Carrying amount		
At January 1	280,115	236,742
Purchased	105,736	38,503
Disposed	(8,285)	-
Reclassified from property, plant equipment (note 10)	-	111,150
Amortization for the year	(141,663)	(106,280)
Net book value at 31 December	**235,903**	**280,115**

Intangible assets comprise accounting software for a net amount of MNT 172,014 thousand (2017: MNT 190,143 thousand) and trademark for a net amount of MNT 63,889 thousand (2017: MNT 89,972 thousand).

13. Accounts and other payables

	2018	2017
Accounts payable	1,353,375	2,226,192
Salary payable	1,465,517	985,822
Other taxes payable (excluding corporate income tax)	938,445	1,275,324
Dividend payable (see Note 18)	168,325	169,858
Advances received	-	1,638,481
Other payables	815,390	76,832
	4,741,052	**6,372,509**

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 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the contractual terms.

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13. Accounts and other payables (cont'd)

13.1 Contract liabilities

	2018	2017
Amounts received in advance	1,037,239	-
	1,037,239	**-**

Contract liabilities as at 31 December 2018 is expected to be recognised as revenue by 31 December 2019.

14. Refund liabilities

	2018	2017
Refund liabilities		
Arising from rights of return	466,329	-
	466,329	-

The refund liability relates to customers' right to return products under the sales agreement. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method.

15. Borrowings

	2018	2017
Current liabilities	113,722,628	40,469,033
Non-current liabilities	6,000,000	30,202,780
	119,722,628	**70,671,813**

Terms and conditions of outstanding loans were as follows:

	2018		2017	
	Current liability	**Non-current liability**	**Current liability**	**Non-current liability**
Secured loans:				
Development Bank of Mongolia LLC (i)	53,143,360	-	19,417,040	-
European Bank for Reconstruction and Development ("EBRD") (ii)	42,286,720	-	-	14,562,780
Trade Development Bank of Mongolia (iii)	9,640,000	6,000,000	120,000	15,640,000
Golomt Bank of Mongolia (iv)	6,343,008	-	5,928,952	-
Xac Bank LLC (v)	-	-	14,562,780	-
Interest payable	2,309,540	-	440,261	-
Total borrowings	**113,722,628**	**6,000,000**	**40,469,033**	**30,202,780**

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15. Borrowings (cont'd)

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

	2018	2017
Effective interest rates:		
Fixed-rate borrowings	8% - 12%	7% - 9%
Variable-rate borrowings	8.51%	7.35%

15.1 Summary of borrowing arrangements

(i) Loans from Development Bank of Mongolia as at 31 December 2018 and 2017 are as follows:

- 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% for working capital purpose. The maturity date for the loan is extended to June 2019. The loan is secured by inventory of the Group.
- In May 2018, the Group obtained a loan for 18 months amounting to MNT 48.0 billion bearing an interest rate of 12.0% per annum for working capital purpose. As of 31 December 2018, MNT 16.0 billion has been paid and the remaining amount of MNT 32.0 billion is due to be paid by December 2019. The loan is secured by buildings, land and inventory of the Group.

(ii) Loans from EBRD as at 31 December 2018 and 2017 are as follows:

- The Group obtained a loan from EBRD in total of USD 16 million. The amounts of USD 6 million (MNT 14.7 billion) in September 2017, USD 4 million (MNT 9.6 billion) in February 2018 and USD 6 million (MNT 14.7 billion) in July 2018 bearing an annual interest of six-month the London Interbank Offered Rate (LIBOR) plus 5.3%-6% to increase liquidity and working capital of the Group. The amounts of USD 1.8 million and USD 2.9 million are to be paid in 2019 and 2020 respectively. The remaining amount of USD 11.3 million is to be fully repaid between 2021 and 2025. The loan is secured by the buildings, factory equipment and inventory of the Group. As at 31 December 2018 the Group breached certain covenants of the loan for which the Group obtained a waiver letter on 6 March 2019 from EBRD, therefore the loan has been presented as short term.

(iii) Loans from Trade and Development Bank of Mongolia as at 31 December 2018 and 2017 are as follows:

- In December 2016, the Group obtained a loan from Trade Development Bank for 60 months amounting to MNT 6 billion bearing an interest rate of 8% per annum for working capital purpose. The loan 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 loan has been financed by Asia Development Bank.
- The Group obtained a loan 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. According to the repayment schedule, the loans are repaid in monthly installments of MNT 10 million and are due to be fully repaid in December 2019. The loans were secured by buildings and lands of the Group and in changed to 600,000 shares of Gobi JSC which is owned by Tavan Bogd Cashmere LLC (parent company) in March 2018.
- In April 2018, the Group obtained a loan amounting to USD 20 million (MNT 48 billion) bearing an interest rate of 12.0% per annum for working capital purpose. The loan was secured by inventory of the Group and it has been fully repaid in June 2018.

15. Borrowings (cont'd)

15.1 Summary of borrowing arrangements (cont'd)

(iv) Loans from Golomt Bank of Mongolia as at 31 December 2018 and 2017 are as follows:

- In January 2017 and March 2017, the Group obtained 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.

- In April 2018, the Group obtained a credit line for 24 months amounting to USD 10 million bearing interest rate of 8.40%. As at 31 December 2018, the Group had withdrawn an amount of USD 2.4 million (MNT 6.3 billion). The credit line is due to be fully repaid between February to April 2020 in equal installments. The credit line is secured by buildings, land and inventory of the Group. The default of EBRD loan leaded to a cross default of the credit line obtained from Golomt bank.

(v) In October 2017, the Group obtained a credit line from Xac Bank for 12 months amounting to USD 6 million (MNT 14,778,120 thousand) bearing interest rate of 8% and was secured by inventory of the Group. The agreement has been amended in September 2018 and annual interest rate increased to 9%. The credit line has been fully repaid in December 2018.

15.2 Reconciliation of liabilities arising from financing activities

	31 December 2017	Financing cash flows		Exchange differences	Other changes (i)	31 December 2018
		Inflow	Outflow			
Bank loans (note 15)	70,671,813	186,137,535	(144,231,210)	5,275,211	1,869,279	119,722,628
Loans from related parties(note 26.2)	-	5,586,782	(5,586,782)	-	-	-
	70,671,813	**191,724,317**	**(149,817,992)**	**5,275,211**	**1,869,279**	**119,722,628**

15.2 Reconciliation of liabilities arising from financing activities (cont'd)

	31 December 2016	Financing cash flows		Exchange differences	Other changes (i)	31 December 2017
		Inflow	Outflow			
Bank loans (note 15)	43,514,943	100,162,894	(74,023,755)	704,404	313,327	70,671,813
Loans from related parties(note 26.2)	-	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 and borrowing costs.

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16. Long term payable

	2018	2017
Other long term liabilities	3,231,805	-
	3,231,805	**-**

Other term long term liabilities comprise exposures due to the purchase of factory equipment from Japan in credit terms bearing an annual interest of 3%. The exposure is to be fully repaid in 2020. The payable is secured by equipment of the Group.

17. Share capital

	Number of shares		Share capital	
	2018	2017	2018	2017
Balance at beginning and end of the year	780,112,500	7,801,125	780,113	780,113
	780,112,500	**7,801,125**	**780,113**	**780,113**

On 1 October 2018 the Company effected a 100 for 1 stock split of its common shares.

The share capital as of 31 December 2018 amounting to MNT 780,112.5 thousand and consists of 780,112,500 authorized and issued common shares at par value of MNT 1.00 (31 December 2017: 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.

18. Dividend

	2018	2017
Dividend payable, beginning balance	169,858	291,394
Declared dividend	1,716,248	1,560,225
Payment of dividend	(1,717,781)	(1,681,761)
Dividend payable, ending balance	**168,325**	**169,858**

By Resolution of the Board of Directors dated 2 February 2018, the Group declared dividends amounting to MNT 220 per share and totalling to MNT 1,716,248 thousand (2017: MNT 200 per share and totalling to MNT 1,560,225 thousand).

19. Earnings per share

	2018	2017
Net profit for the year (in MNT'000)	17,764,164	17,502,984
Weighted average number of ordinary shares	780,112,500	780,112,500
Earnings per share (in MNT'000)	**0.02**	**0.02**

On 1 October 2018 the Company effected a 100 for 1 stock split of its common shares. All shares and earning per share information have been retrospectively adjusted to reflect the stock split.

Basic earnings per share are calculated by dividing the Group's profit by the weighted average of shares outstanding during the year.

Diluted earnings per share coincide with basic earnings per share because there are no outstanding shares or options other than ordinary shares.

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20. Revaluation surplus

	2018	2017
Balance at beginning of year	15,647,697	15,647,697
Balance at end of year	**15,647,697**	**15,647,697**

21. Foreign currency translation reserve

	2018	2017
Balance at beginning of year	(28,274)	-
Exchange differences arising on translating the net assets of foreign subsidiaries	(106,929)	(28,274)
Balance at end of year	**(135,203)**	**(28,274)**

22. Income tax expense

	2018	2017
Current tax:		
Current tax expense in respect of the current year	6,650,891	6,087,201
Deferred tax:		
Deferred tax benefit recognized in the current year	(1,166,623)	(147,924)
	5,484,268	**5,939,277**

22.1 Current tax

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

	2018	2017
Accounting income before taxation	23,248,432	23,442,261
Income tax expense at statutory rate of 25% based on net profit before taxation	5,812,108	5,860,565
Effect of incomes that are non-taxable	(459,916)	(42,477)
Effect of expenses that are non-deductible	417,664	418,203
Effect of interest income subject to flat 10% rate	(34,348)	(91,014)
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	198,760	235,965
Effect of lower tax rate on profit below MNT 3 billion (10%)	(450,000)	(450,000)
Income tax expense	**5,484,268**	**5,939,277**

The tax rate used for the 2018 and 2017 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.

22.2 Current tax liabilities

	2018	2017
Balance at beginning of the year	1,971,410	2,196,930
Current tax expense for the year	6,650,891	6,087,201
Payments for income tax	(6,867,067)	(6,312,721)
Corporate income tax payable	**1,755,234**	**1,971,410**

22. Income tax expense (cont'd)

22.3 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.

2018	Opening balance	Recognized in profit or (loss)	Closing balance
Deferred tax assets in relation to:			
Revaluation of financial assets	(44,447)	(120,066)	(164,513)
Accelerated tax depreciation	(32,141)	(15,241)	(47,382)
Revaluation of financial liabilities	(9,594)	91,534	81,940
Translation of borrowings	170,113	1,210,396	1,380,509
	83,931	**1,166,623**	**1,250,554**

2017	Opening balance	Recognized in profit or (loss)	Closing balance
Deferred tax assets in relation to:			
Revaluation of financial assets	(68,344)	23,897	(44,447)
Accelerated tax depreciation	-	(32,141)	(32,141)
Revaluation of financial liabilities	2,885	(12,479)	(9,594)
Translation of borrowings	1,466	168,647	170,113
	(63,993)	**147,924**	**83,931**

23. Revenue and expenses

23.1 Revenue

	2018	2017
Sales of knitwear	85,560,542	67,101,195
Sales of sewn	42,170,254	26,462,796
Sales of woven	34,853,446	27,469,670
Service income	9,356,857	579,078
Others	1,498,276	2,812,368
	173,439,375	**124,425,107**

23.2 Cost of Sales

	2018	2017
Knitwear	49,842,077	40,231,861
Sewn	17,861,181	16,855,492
Woven	26,171,295	14,304,438
Cost of service	7,445,051	449,019
Other	827,923	2,039,840
	102,147,527	**73,880,650**

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23. Revenue and expenses (cont'd)

23.3 Expense by nature

	2018	2017
Changes in finished goods, work in progress, consumables and goods in transit	(27,286,855)	(24,917,169)
Raw materials used	94,921,005	71,864,481
Salaries and related costs	33,092,258	24,114,521
Depreciation and amortization (note 10 and 12.1)	6,114,310	5,633,556
Advertisement expenses	4,879,579	1,748,725
Customer promotion expenses	4,010,354	3,970,629
Supplies and consumables	2,837,338	1,473,015
Utility expenses	2,645,031	2,648,543
Bank charges	2,014,738	1,368,564
Repairs and maintenances	1,865,874	584,750
Labor safety expenses	1,813,633	1,580,310
Rental expense	1,488,680	1,077,970
Transportation	1,082,841	166,417
Business trips	979,614	873,578
Insurance expenses	349,241	524,135
Security expenses	302,999	259,834
Professional service fees	257,859	156,464
Fuel	221,833	345,634
HR and related costs	103,907	259,452
Communication expenses	55,742	104,474
Other expenses	1,897,937	925,143
Total cost of sales, selling and marketing expenses and general and administrative expenses	**133,647,918**	**94,763,026**

24. Finance and other income

	2018	2017
Interest income	228,987	606,757
Rental and other income	313,058	242,059
	542,045	**848,816**

25. Other gains and (losses)

	2018	2017
Net foreign exchange losses	(6,379,898)	(774,419)
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	(181,707)	(181,228)
	(6,561,605)	**(571,863)**

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.

26. Balances and transactions with related parties

26.1 Balances with related parties

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

	2018	2017
Trade receivable from the parent	-	7,909
Tavan Bogd Trade LLC (former parent company)	-	*7,909*
Trade receivable from other related parties	500	500
	500	**8,409**

26.2 Transactions with related parties

The following transactions are incurred with the parent:

Tavan Bogd Trade LLC (former parent company and ultimate holding company)	2018	2017
Advances provided to the parent	-	11,005,592
Collection of advances provided to the parent	-	25,010,400
Advances received from parent (note 15.2)	5,586,782	2,066,070
Payments of advances received from the parent (note 15.2)	5,586,782	2,066,070
Interest income from the parent	-	316,715
Purchases made from the parent	326,281	72,722
Interest expense to the parent	58,102	868
Sales made to the parent	3,600	17,993

No transactions incurred with Tavan Bogd Cashmere LLC (parent company) for the year ended 31 December, 2018.

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

	2018	2017
Advances provided to related parties (fellow subsidiaries)	3,000,314	424,888
Collection of advances provided to related parties (fellow subsidiaries)	3,000,314	420,080
Advances received from the related parties (fellow subsidiaries – note 15.2)	-	14,980,000
Payments of advances received from the related parties (fellow subsidiaries – note 15.2)	-	14,980,000
Interest income from the related parties (fellow subsidiaries)	6,480	5,407
Purchases made from other related parties (fellow subsidiaries)	3,859,283	1,423,141
Sales made to other related parties (fellow subsidiaries)	9,979,074	245,830
Rental income from other related parties (fellow subsidiaries)	-	144,608
Interest expense to other related parties (fellow subsidiaries)	-	498,660

All transactions with related parties are at mutually agreed terms.

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

26.2 Transactions with related parties (cont'd)

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.

26.3 Compensation of key management personnel

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

	2018	2017
Short-term benefits	1,903,367	1,142,619

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

27. 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:

	2018	2017
Financial assets:		
Trade and other receivables, amortised cost	16,720,671	18,827,961
Financial liabilities:		
Amortised cost	125,291,523	73,144,695

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:

27.1 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.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risk associated with account receivables is mitigated because they are insured and secured by letter of credit. The carrying amount of accounts receivables insured or with a letter of credit amounts to MNT 8,855 million (2017: 8,818 million).

27. Financial instruments and financial risk management objectives (cont’d)

27.1 Credit risk management (cont'd)

The management of the Group considers that bank balances that are deposited with local banks or financial institutions with high credit rating to be low credit risk financial assets. The management of the Group considers the probability of default is negligible and accordingly, no loss allowance was recognized.

The management of the Group has made collective assessments and/or individual assessment on recoverability of accounts receivables based on historical settlement records and adjusted for forward-looking information. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Details of the impairment assessment on accounts receivables are set out in note 6.

The management of the Group has made individual assessment on recoverability of other receivables based on historical settlement records and adjusts for forward-looking information. The management of the Group has assessed that other receivables have not had a significant increase in credit risk since initial recognition and risk of default is insignificant, and therefore, no impairment has been recognised.

Five largest customers account for 41% of the total balance of accounts receivables (31 December 2017: 29%).

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.

27.2 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.

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

27.2 Liquidity risk management (cont'd)

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 2018							
Non-interest bearing	-	2,104,890	195,487	36,713	-	2,337,090	2,337,090
Variable interest rate instruments	8.51%	1,734,534	859,956	43,054,189	-	45,648,679	44,265,765
Fixed interest rate instruments	9.27%	8,478,021	1,252,723	63,909,309	9,808,118	83,448,171	78,688,668
		12,317,445	**2,308,166**	**107,000,211**	**9,808,118**	**131,433,940**	**125,291,523**

	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**

27.3 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.

27.3.1 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.

GOBI JSC AND ITS SUBSIDIARIES
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27. Financial instruments and financial risk management objectives (cont'd)

27.3.1 Interest rate risk management (cont'd)

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 2018, 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 2018 would decrease/increase by MNT 797,778 thousand (31 December 2017: 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.

27.3.2 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:

	2018		2017	
	Liabilities	**Assets**	**Liabilities**	**Assets**
Foreign currency denominated	74,018,796	12,423,989	56,053,123	16,719,458
	74,018,796	**12,423,989**	**56,053,123**	**16,719,458**

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.

	2018	**2017**
Effect on profit after tax	6,159,481	3,933,367
	6,159,481	**3,933,367**

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(IN THOUSANDS OF MONGOLIAN TOGROGS)

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

27.3 Market risk (cont'd)

27.3.2 Foreign currency risk management (cont'd)

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.

27.4 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 financial assets and 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.

28. 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 other income and expenses are allocated to a segment. No analysis of segment assets and liabilities are presented.

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(IN THOUSANDS OF MONGOLIAN TOGROGS)

28. Segment information (cont'd)

28.1 Segment revenue and results

		Segment revenue		Segment profit	
		2018	**2017**	**2018**	**2017**
Domestic sales:	Knitwear	41,858,531	36,168,748	20,512,623	17,195,336
	Sewn	34,446,836	19,130,964	12,899,731	7,110,274
	Woven	25,530,926	16,961,159	13,589,914	9,025,330
	Service income	9,356,857	579,078	1,911,806	130,059
	Other	671,130	1,723,963	184,922	35,716
		111,864,280	74,563,912	49,098,996	33,496,715
Export sales:	Knitwear	43,702,011	30,932,446	15,205,842	9,673,997
	Sewn	7,723,418	7,331,832	3,099,228	2,497,030
	Woven	9,322,520	10,508,511	3,402,351	4,139,902
	Other	827,146	1,088,406	485,431	736,813
		61,575,095	49,861,195	22,192,852	17,047,742
		173,439,375	**124,425,107**	**71,291,848**	**50,544,457**
Finance and other income				542,045	848,816
Other (losses) and gains				(6,561,605)	(571,863)
Interest expense				(10,521,942)	(6,496,773)
Selling and marketing expenses				(20,210,195)	(12,121,296)
General and administrative expenses				(11,290,196)	(8,761,080)
Impairment losses on financial assets				(1,523)	-
Profit before taxation				**23,248,432**	**23,442,261**

No single customers contributed 10% or more to the Group's revenue for both 2018 and 2017.

28.2 Geographical information

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

	Revenue from external customers	
	2018	**2017**
Mongolia	111,864,280	74,563,912
Asia Pacific	32,961,394	26,724,390
Europe	19,051,960	15,147,459
Russia	5,234,930	4,605,257
North America	4,326,811	3,358,738
Oceania	-	25,351
	173,439,375	**124,425,107**

(IN THOUSANDS OF MONGOLIAN TOGROGS)

29. 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 2017.

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.

30. Commitments for expenditure

	2018	2017
Commitments for the acquisition of property, plant and equipment	7,268,760	150,541
	7,268,760	**150,541**

31. Operating lease arrangements

31.1 The Group as lessee

As at 31 December 2018 and 2017 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:

	2018	2017
Minimum lease payments	1,488,680	1,077,970
	1,488,680	**1,077,970**

31.2 The Group as lessor

As at 31 December 2018 and 2017 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 2018 are as follows:

	2018	2017
Not more than 1 year	95,455	121,336
	95,455	**121,336**

32. Events after the reporting period

By Resolution of the Board of Directors dated on 13 February 2019, the Group declared dividends amounting to MNT 6.8 per share (MNT 5,304,765 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 2018

Deloitte.

Deloitte Onch Audit LLC
15th floor, ICC Tower
Jamiyan Gun Street
Sukhbaatar district, 1st khoroo
Ulaanbaatar, 14240
Mongolia

Tel: +976 70100450
+976 70120450
Fax: +976 70130450
www.deloitte.com

7 March 2019

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 out audit of the consolidated financial statements of Gobi JSC ("the Company" and its subsidiaries for the year ended 31 December 2018.

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

Norjinbat Shagdarsuren
Director, CPA
Deloitte Onch 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:

	2018	2017
Trade receivable from the parent	-	7,909
Tavan Bogd Trade LLC (former parent company)	-	*7,909*
Trade receivable from other related parties	500	500
	500	**8,409**

1.2 Transactions with related parties

The following transactions are incurred with the parent:

Tavan Bogd Trade LLC (former parent company and ultimate holding company)	2018	2017
Advances provided to the parent	-	11,005,592
Collection of advances provided to the parent	-	25,010,400
Advances received from parent	5,586,782	2,066,070
Payments of advances received from the parent	5,586,782	2,066,070
Interest income from the parent	-	316,715
Purchases made from the parent	326,281	72,722
Interest expense to the parent	58,102	868
Sales made to the parent	3,600	17,993

No transactions incurred with Tavan Bogd Cashmere LLC (parent company) for the year ended 31 December, 2018.

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

	2018	2017
Advances provided to related parties (fellow subsidiaries)	3,000,314	424,888
Collection of advances provided to related parties (fellow subsidiaries)	3,000,314	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)	6,480	5,407
Purchases made from other related parties (fellow subsidiaries)	3,859,283	1,423,141
Sales made to other related parties (fellow subsidiaries)	9,979,074	245,830
Rental income from other related parties (fellow subsidiaries)	-	144,608
Interest expense to other related parties (fellow subsidiaries)	-	498,660

All transactions with related parties are at mutually agreed terms.

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

1.2 Transactions with related parties (cont'd)

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.

1.3 Compensation of key management personnel

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

	2018	2017
Short-term benefits	1,903,367	1,142,619

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

DOMESTIC STORES LOCATION

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

GALLERIA ULAANBAATAR BRANCH STORE
Galleria Ulaanbaatar Center, Leftside of Sukhbaatar Square, 8th khoroo, Sukhbaatar District, Ulaanbaatar
Tel: 7004 8888

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

3,4TH MICRO DISTRICT BRANCH STORE
1st floor at Smart Electronics in front to Urgoo Cinema, Bayangol district, Ulaanbaatar
Tel: 7004 8888

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

CHINGGIS KHAN INTERNATIONAL AIRPORT BRANCH STORE
At Departure hall in Chinggis Khan International Airport

INTERNATIONAL STORES LOCATION

BRANCH STORES

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

ISTANBUL, TURKEY
MONGOLIAN CASHMERE GOBI
HARBİYE MAHALLESİ ABDİ İPEKÇİ CADDESİ BRONZ SOKAK NO: 7D POSTA KODU: 34367 ŞİŞLİ -İSTANBUL, TÜRKİYE

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

ASTANA, KAZAKHSTAN
ЛЮКС КАШЕМИР
Z05P5TD Астана, проспект Мангелик ЕЛ 35, в/п 24, магазин Zharuma
+771 727 53952

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

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

HUHHOT, CHINA
GOBI CASHMERE
Zhongshan West Road, Hohhot

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

HONG KONG, CHINA
GOBI MONGOLIAN CASHMERE
Man Yee building, 68 Des Voeux road Central, 2nd floor, Shop 214, Central, Hong Kong

ULANHOT, INNER MONGOLIA, CHINA
GOBI MONGOLIAN CASHMERE
New century square, 42-11, Wulanhaote city, Inner Mongolia, China

FUZHOU, CHINA
GOBI MONGOLIAN CASHMERE
2nd floor, Baolong Xinhua, Taijiang District Industrial Road, Fujian Province

SHANGHAI, CHINA
GOBI MONGOLIAN CASHMERE
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

SEOUL, KOREA
GOBI KOREA
843, Seolleung-ro, 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

NAPLES, ITALY
GOBI CASHMERE
Via nazionale Delle Puglie, 88, San Vitaliano, (NA)

NAPLES, ITALY
GOBI CASHMERE
Via Calabritto, 21 80121 Napoli

PRAGUE, CZECH
GOBI KAŠMÍR
V Jame 3, 110 00 Praha 1, Czech
+42 (0) 702 065 696
www.kasmir.cz

PRAGUE, CZECH
GOBI KAŠMÍR
MAISELOVA 5, 110 00, Praha 1, Czech
+42 (0) 722 066 591
www.kasmir.cz

SZCZECIN, POLAND
GOBI KAŠMÍR
Wyzwolenia str, 44 71-500 Szczecin, Poland

NORTH AMERICA

WASHINGTON, USA
T & U MONGOLIAN CASHMERE
1663 Wisconsin Ave NW, Washington, USA
CHICAGO, USA
TENGR CASHMERE
1650, Premium Outlet blvd Suite #981 Aurora, IL
65502-2901, 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, Россия

KAZAN, TATARSTAN, RUSSIA
GOBI MONGOLIAN CASHMERE
Ул, Джержинского д.5, Казань, Респ, Татарстан, Россия

ULAN-UDE, RUSSIA
МАГАЗИНЫ КАШЕМИР ХАУС
Ул Ленина 44, Улан-Удэ, Респ, Бурятия, Россия, 670000
+7 964 414 78 88

IRKUTSK, RUSSIA
МАГАЗИНЫ КАШЕМИР ХАУС
Ул.Советская 3, Деловой Центр, остановка театр кукол,
Иркутская обл., Россия, 670000
+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"
Невский проспект 48, Торговый дом – "Пассаж"
+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 Corporation, Industrial street, 3rd Khoroo, Khan-Uul District
Ulaanbaatar-17062 Mongolia, P.O.Box 36/434

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