KHUKH GAN JOINT STOCK COMPANY RESEARCH

INTRODUCTION OF THE COMPANY

The Khukh Gan JSC was founded in 2007 as a joint investment of Beren Group LLC of Mongolia and Faber Investment LLC of Singapore and registered to Mongolian Stock Exchange in 2008. The Khukh Gan JSC products Mongolian first direct reduced iron and employs 250 workers. The direct reduced plant is located in Govil sub district of Erdenet city.

MANAGEMENT

Khukh Gan JSC has issued 101,317,557 of common stock. The information about shareholders' equity proportion is showed in the table below.

Shareholders	Proportion
Beren Group LLC	52.50%
Faber Investment LLC	17.50%

Resource: Mongolian Stock Exchange

Board director B. Munkhtur
Mr. Munkhtur was born in Tsetserleg city of Arkhangai province in 1966 and he is now President of Beren Group.

Chief executive officer Ts. Batbold
Mr. Batbold was born in Ulaanbaatar in 1979. He studied bachelor of Computer science and Busssiness Administration in USA. He has been working as Member of broad director at Beren Group and CEO of Khukh Gan JSC since August 2010.

FINANCIAL INFORMATION

Indicator	2010	2011
Total Asset (bln MNT)	23.6	27404.7
Net profit (bln MNT)	2.28	3424.9
Intangible assets and liabilities (bln MNT)	4.84	5.35
Earning Per Share (EPS)	5393.67	8095.45
Price to Earning Ratio (P/E)	4.35	4.06
Price to book ratio(P/B)	0.53	0.63
Return on Asset (ROA)	0.1	0.12
Return on Equity (ROE)	0.12	0.16
Dividend per share (DPS)	0	0
Annual average stock price	154	200
Annual average marketcapitalization	15.6	20.2

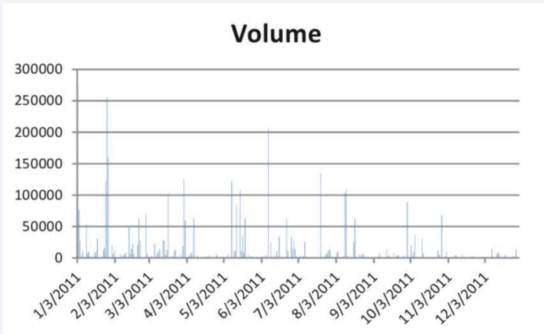
Resource: Standard investment LLC

GENERAL INFORMATION

Establishment date	2007
Main activity	Metallurgical plant
Board director	Munkhtur.B
Total asset (12.31.2011)bln MNT	16.02

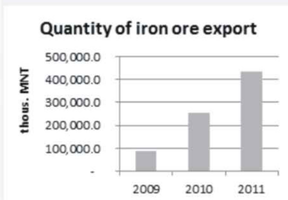
INFORMATION OF STOCK

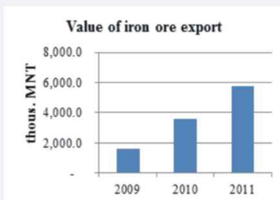
Code of stock	532
Symbol	HGN
Number of total share	101,317,557
Close price /MNT/	210
Market value /bln MNT/	21.3



Resource: Standard investment LLC

MARKET OVERVIEW





Iron annual domestic demand, 2011	Ton
Darkhan metallurgical plant	140,000
Erdenet mining Corporation	15,000
Producers of component	30,000
Other small sized steel and iron producing enterprises	30,000
Total	**215,000**

Resource: National Statistical Office of Mongolia

GROWTH AND DEVELOPMENT OF THE COMPANY

Khukh Gan JSC started producing its first product with its first line in February 2010. The second line was built in October 2011. While the company was able to produce 1,450 tons monthly of direct reduced iron (DRI) in October 2011, once a second production line was built, possibility of production was doubled to 2,500 tons per month. The plant is able to convert 42 percent of iron ore into metal with 66 percent iron concentrate. Today the plant's working capacity is increased into 30,000 tons per year because the second line was successfully built.

Khukh Gan JSC has recently signed a long term DRI supply contract with one of the largest Chinese steel producers. This is the first major agreement between Khukh Gan and a potential foreign buyer. According to the contract, Khukh Gan will provide 2,000 tonnes of DRI for the Chinese company every month. The signing of the contract will consolidate Khukh Gan's presence in the export market. The Mongolian Parliament has decided there will be no value added tax and export tax on DRI and iron concentrate.

Mongolia has a low population and scrap production is small. Therefore, processing iron-ore and manufacturing iron metal from raw materials are crucial. Khukh Gan JSC has received interest from the likes of companies from China, South Korea, and Japan for its product. Currently negotiating with firms such as Japan's Toyota and Korea's Toto.

DRI is a relatively cheap form of metal production because it does not use coking coal and is less harmful to the environment. The metal produced at HGN contains 87 percent to 92 percent iron and is of generally high quality. The plant is close to the rail line of Erdenet and this location is advantageous for transport of goods.Price for per ton of DRI that sold to DMP last year was 430,000 MNT, or roughly 314 USD which is 30% higher than it was in 2010, but still about 10% lower than the export price.

On 11.01.2012 the Official letter/ultimatum has been sent from Financial Regulatory Commision to the company in which demanding to eliminate certain errors which have influenced for facing financial pressure and working unprofitable for last 3 years. According to the decision of shareholders meeting of Khukh Gan JSC on 30/04/2012, they have decided to comply all above demands of Official letter/ultimatum.

CONCLUSION

Khukh Gan JSC is Mongolia's first and only DRI producer and it has expanded its activity by doubling capacity of production in January 2012. Khukh Gan JSC supplies constantly its mail buyer Darkhan metallurgical plant. Price to book ratio (P/B) is low, 1.9 in 2010 and 2.51 in 2011. Currently there is no competition in the DRI sector. The Return on Asset (ROA) and Return on Equity (ROE) ratios are negative values because there was no profit in 2011. They were in payback period in 2011.

Quality of DRI could reach as high as 97 percent, but lack of resources and a need for heavy investments are the obstacles to overcome before that sort of production can be done.

We expect the company to produce a sound performance in 2012, completing to generate a strong cash flow. Even though a potential slowdown in the domestic construction sector could present some danger to the company, the export market (China) is still a huge potential for Khukh Gan. Once the company announces profit, it will possibly influence the share price in a positive manner.

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