

July 2012 Monthly Newsletter

Dear Shareholders of Mongolia Growth Group Ltd.,

During the month of July, business activity in Mongolia slowed substantially due to the weeklong Naadam holiday. Despite the slow-down, our daily operations proceeded normally. In particular, we saw a new monthly high for total rental revenue. We can attribute this to a larger portfolio of assets and some very determined work by our leasing team. It also should also be pointed out that when properties do come up for rent, we are receiving substantial increases in rental rates.

In past letters, I have described how when we purchase a property, we honor all existing leases in place. We do this because we want to be seen as reliable landlords. Thus far, this has hurt us on the revenue side as rental rates in Ulaanbaatar are increasing dramatically, yet we have been locked into leases at rates that are substantially below market. But now, our insistence in honoring contracts is beginning to work in our favor as larger Mongolian companies are increasingly seeking us out for their leasing needs. This means that we get a much more stable corporate tenant base that is easier on the management side. It also means that when we do go to re-lease these properties, we are now receiving current market rates, which are often at a substantial increase compared to the rates that we were previously receiving. In particular, we have a number of sizable leases that are expected to re-price in the next few months and these are currently some of the most egregiously below market leases in terms of per meter rates. (We intend to put some additional data on signed lease commitments and anticipated future rents based on market prices in our second quarter MD&A filed with SEDAR).

Over the past few months, I've received many questions about annual increases in market rates for commercial space in downtown Ulaanbaatar. On a very generalized basis, it seems that per meter rents on the best streets in downtown are up by at least 50% over the past year, while secondary streets have seen somewhat smaller increases. This seems to be driven by a desire by multi-branch Mongolian businesses to have an increased retail presence on the highest traffic streets. In particular, we have seen material increases in market presence from banks, multi-chain restaurants and cell phone companies. Recently, we have seen inquiries from international brands that now have Mongolia on their radar. Over time, it is only natural that these international brands will also need retail space. This demand, combined with rapidly increasing levels of disposable income from Mongolian consumers, is leading to an increased ability for tenants to pay higher rates and these tenants are bidding up prices along the high traffic streets in the city.

On the office side, there have been some very sizable increases in rents due to the extreme lack of available supply in downtown and 30% to 50% annual increases in per meter rents seem to be the norm throughout the spectrum of Class A all the way down to Class C space. These price increases are being driven by an extreme lack of available space coupled with a sizable increase in demand. It would seem that this undersupply of space will get more severe in the next few years, before new projects finally come online to alleviate the imbalance. However, the other variable is on the demand side. As an economy matures, the percentage of office workers in the economy grows. I would expect to see a similar thing happen here in Mongolia and this will continue to put pressure on the very limited stock of existing space.

Returning to our actual operations, during the month of July, we purchased one small (approximately 1,100 gross meters) distressed office building that is quite dilapidated, but in a great location. Our expectation is that after renovations, we will experience a mid-teens yield on our invested capital based on current market rates. Offsetting this purchase, we have continued to make small sales from our "held for sale" portfolio. Our goal remains to completely exit the residential market by year-end with the exception of a handful of units mainly reserved for employees.

In general, we continue to target (and receive) a mid-teen pro-forma yield as a minimal threshold on all non-re-development properties that we acquire. Of course, we are willing to make exceptions for very well located retail locations. When we do acquire leasable properties, you should remember that it often takes some time for this pro-forma yield to show up in our financial statements. To start with, we frequently acquire properties with legacy tenants. This means that we do not get the benefit of Ulaanbaatar's rapidly increasing property rents until the lease renews. In addition, we frequently do extensive renovations of these properties when they finally do become vacant. This means that the property is not producing any revenue while it is being remodeled. Afterwards, it takes some time for the property to be re-leased.



Property is a very long duration asset. If we do not experience our yield thresholds immediately, we aren't all that concerned. If anything, it means that we probably got a better bargain because of the reduced current yield. We are long term investors in Mongolia and take a very long term view of buying, renovating and maintaining high quality properties.

Sincerely,

Harris Kupperman
Chairman & CEO
Mongolia Growth Group Ltd.

For further details on the foregoing document, please refer to the Corporation's filing on SEDAR.

For more information on Mongolia Growth Group Ltd., please see our website:

www.MongoliaGrowthGroup.com

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Forward-looking Information Cautionary Statement

Except for statements of historic fact, this news release contains certain forward-looking information within the meaning of applicable securities law. Forward-looking information is frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate” and other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions and estimates of management relying on their experience at the date the statements are made, and are subject to a variety of risks, uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking statements including, but not limited to delays or uncertainties with regulatory approvals, including that of the CNSX, changes in the business environment that might impact the intended use of proceeds and changes in the intention of the parties to subscribe to the private placement. There are uncertainties inherent in forward-looking information, including factors beyond MGG’s control. MGG undertakes no obligation to update forward-looking information if circumstances or management’s estimates or opinions should change except as required by law. The reader is cautioned not to place undue reliance on forward-looking statements. Additional information identifying risks and uncertainties that could affect financial results is contained in MGG’s filings with Canadian securities regulators, which filings are available at www.sedar.com. The CNSX has not reviewed and does not accept responsibility for the adequacy or accuracy of this release

