



## Mongolia Growth Group Ltd. June 2015 Monthly Letter to Shareholders

TORONTO, CANADA, July 23, 2015 /FSC/ Mongolia Growth Group Ltd. (YAK – TSXV and MNGGF – USA), (“MGG”) or (“the Company”) a commercial real estate investment and development company participating in the dynamic growth of the Mongolian economy announces the release of its June 2015 Shareholder Letter.

### June 2015 Shareholder Letter

#### To the Shareholders of Mongolia Growth Group Ltd.,

In June 2015, MGG’s core commercial property portfolio\* experienced a same-store rental decline of 9.6% relative to June 2014 on properties owned 12 months or longer, as measured in Mongolian Togrog (MNT). Total billed revenue for June 2015 was 247.9 million MNT, as compared to 242.2 million MNT in June of 2014 or a 2.4% increase.\*\* The occupancy rate for the core portfolio in June of 2015 was 90.5% including an occupancy rate of 87.4% for core retail properties and an occupancy rate of 94.6% for core office properties\*\*\*.

#### Revenue Review, Near Term Revenue & Longer Term Revenue Initiatives

##### *Revenue Review*

Now that our expense structure has stabilized at a far more sustainable level, our focus is shifting to the many previously identified opportunities to increase our revenues and ultimately become cash flow positive.

From a big picture view, over the past few months, our revenues have slowly declined for a variety of reasons. The largest of these reasons relates to the deteriorating Mongolian economy and leasing environment in Ulaanbaatar. Over the past year, lease rates have fallen quite dramatically, though the rate of decline seems to be slowing. Using rough numbers, the office market has seen rental rates drop by half, while retail rental rates are off by a third compared to the prior year, in US Dollar terms (USD). Adding to this weakness in the market is an increased level of vacancy due to financial distress amongst tenants. While our team has done an outstanding job of navigating these issues and ensuring that we retain occupancy levels that are substantially above market rates, we are not immune to the overall economy. In particular, June saw us experience a number of sudden vacancies caused by tenants who were unable to continue their businesses. We expect to rapidly re-lease these units, but likely at rates

that were lower than prior rental rates. Finally, we have seen a dip in Tuguldur revenues as we focus on re-structuring the tenant mix.

Despite the deteriorating leasing environment, we have many reasons to be optimistic about our future rental revenues—however before the company could focus on increasing revenues, we needed to first restore our operations and stabilize our cost structure. With this nearing completion, we intend to focus the second half of the year on growing our revenues.

#### *Near Term Revenue Initiatives*

We believe that there are numerous ways to increase our revenues in the short term and in August, we will begin to actively target these revenue opportunities. This mainly entails the better utilization of our existing property assets including revenue opportunities like signage and parking to taking back subleases and managing the properties ourselves.

Despite sounding somewhat prosaic, we expect that these initiatives will actually drive quite a bit of added revenue without substantial additional expense or capital investment.

#### *Longer Term Revenue Initiatives*

Over the longer term, our revenue drivers break down into two categories; new developments and fee based services.

When we look at new developments, Tuguldur Stage 2 is the highest profile of these developments as it is intended to more than double MGG's retail space when completed. While we continue to put our efforts into advancing this project, it won't add to our revenues for quite some time as we are still focused on the planning and permitting stages of development.

In addition to Tuguldur Stage 2 and at a more manageable cost, we are looking at two smaller projects that can be completed much sooner and can almost immediately be accretive to our revenues upon completion. In both cases, we are looking to advance these projects during the second half of 2015.

I personally believe that fee based services may be the most attractive of all the opportunities that I have mentioned thus far. These services run the gamut from simple brokerage operations, to the management of properties and even the management of property funds. As the only institutional property management company in Mongolia, I think we are uniquely positioned to capture this market.

In summary, for the last six months, we have focused our attention almost exclusively on reducing costs and restoring our operations to their prior levels of efficiency. Now that the business is finally stabilizing, we can focus on more exciting pursuits, like growth initiatives. Despite a weak economy, we believe that we are well positioned for our revenues to increase. Additionally, certain new businesses like fee based leasing will actually benefit from the weak economy as higher vacancy rates in Ulaanbaatar lead property owners to seek out experienced companies like ours to help alleviate their vacancy.

## **Mongolian Economic Update**

Since the most recent letter:

- World Bank Upgrades Mongolia to Upper Middle-Income Status, 2nd Highest Mover in New Ranking. The new GNI per capita rankings show that Maldives and Mongolia were the highest movers in the rankings – up 13 and 8 places, respectively. (World Bank)
- Mongolia's June CPI fell 0.1% m/m, increased 7.3% y/y, the slowest rise since June 2011 when inflation was 6.2%, the National Statistical Office says Friday in statement. (Bloomberg)
- Mongolian companies now have the chance to export horse meat products to China, including meat dumplings and bone meal. Last week, Chairman of the General Agency for Specialized Inspection (GASI) Sh.Radnaased and Vice Minister of the General Administration of Quality Supervision, Inspection and Quarantine Wu Qinghai signed export inspection and quarantine protocols that will be used during horse meat product export from Mongolia to China. (UB Post)

We look forward to updating you again on our progress and new developments in the Mongolian economy next month.

Sincerely,

**Harris Kupperman**

*Chairman & CEO*

*Mongolia Growth Group Ltd.*

\*The core commercial property portfolio is defined as those commercial assets that are held for long term investment and excludes certain development assets which produce minimal rental revenues, certain assets that are actively being marketed and all residential properties. One property included in the calculation is accounted for as PP&E assets in the Company's financial statements as filed with SEDAR.

\*\*Billed revenue represents the revenue billed to tenants, net of VAT. It does not take into account bad debt expense, late payment penalties, interest income or management fee revenue.

\*\*\*Ground floor retail locations inside of office buildings are classified as office space in terms of rental revenue and meters available to rent.

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](http://www.MongoliaGrowthGroup.com)

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Mongolia Growth Group Ltd. is a publicly traded and leading property investment and development company in Ulaanbaatar, Mongolia. MGG owns an extensive property portfolio, in diversified segments of the property market, with an emphasis on institutional-grade commercial assets.

MGG undertakes its own property acquisitions, develops brownfield land assets and repositions outdated properties, relying on in-house services for all facets of both the investment portfolio and development side of the business. In addition, MGG acts as a full-service third party provider for institutional clients and tailors transactions covering acquisition-to-suit, build-to-suit, as well as refurbish-to-suit, for property owners and major tenants.

### **Forward-looking Information Cautionary Statement**

Information and statements contained in this Letter to Shareholders that are not historical facts are “forward-looking information” within the meaning of applicable Canadian securities legislation and involve risks and uncertainties.

Forward-looking information is necessarily based upon a number of assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. MGG cautions the reader that such forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from those expressed or implied by such forward-looking information.

Such risks and uncertainties include, but are not limited to: risks associated with investment in and redevelopment of real property in Mongolia; competition, financing and refinancing risks; risks to the consumer mortgage market; a lack of correlation between disposable income and consumption; risks related to economic conditions; risks related to mining and mining development in Mongolia; risks related to regulation of the real estate in Mongolia; political risk in Mongolia; changes in Mongolian taxation rules; reliance on key personnel; environmental matters; tenant risks; and other risk factors more particularly described in in MGG's filings with Canadian securities regulators, which filings are available at [www.sedar.com](http://www.sedar.com).

Additional risks and uncertainties not presently known to MGG or that MGG currently believes to be less significant may also adversely affect MGG. Forward-looking information is designed to help you understand management's current views of our near and longer term prospects, and it may not be appropriate for other purposes. MGG does not undertake any obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except to the extent legally required.

The TSXV has not reviewed and does not accept responsibility for the adequacy or accuracy of this Letter to Shareholders.