

## January 2012 Monthly Newsletter

Dear Shareholders of Mongolia Growth Group Ltd.,

January represents the start of a new year. It gives us a chance to look back over the past year and see what worked, what we need to improve on and how to sharpen our strategy for 2012. In particular, as our company has grown, what seemed adequate only 11 months ago seems somewhat insufficient today. What appeared to be a good investment before is now too small to be practical. As we go through our budgets, we are learning that certain assets are more difficult to manage than we expected, while others are areas that we should focus more diligently upon. We are also learning that our Mongolian property team (22 people) has matured to the point where we can increasingly delegate more responsibility to them and focus more of Jordan's and my own time on the bigger picture issues that will guide our business.

Looking at our portfolio composition, we are increasingly convinced that while our smaller assets provide decent revenue for us, their smaller size makes them overly cumbersome from an administrative standpoint. A small residential unit takes just as much management time to administer as an entire floor of an office building—while providing only a fraction of the revenue. This factor is amplified in the market for expat housing. While expat rentals tend to generate higher yields than rentals to Mongolians, since they are renting furnished apartments, expats also tend to need a lot more hand holding in their first few months in Mongolia. More importantly, roughly half of our expat tenants decided to leave Mongolia at the first sign of cold weather, leaving us with quite a few vacancies. Fortunately, we have a sizable list of expats looking for rental space, but it seems that this is a business that we will put in the “too hard” pile. If we were to devote a substantial portion of our energies to this business, I think it would be a very good business, but given our future growth intentions, single unit expat housing seems to be too small to justify the effort. These apartments are located in the down- town core, and we do not see much difficulty in selling these units as the lease contracts expire over the next year.

The same can be said for our individual unfurnished apartments rented by Mongolians. While the Mongolians have proven to be excellent tenants, the small sizes of the individual units make them less than ideal. We haven't been purchasing downtown residential property for months. Over the next year, we intend to sell many of the rental apartment units that we own, with the goal of completely exiting this business. Given the increasingly small portion of our portfolio that is dedicated to individual apartments, we do not anticipate this having a significant impact on MGG.

Owning individual apartments has been a great learning experience for our company. Their small dollar size meant that we were able to complete many transactions over our first six months, learn extensively about property due diligence and take minimal corporate risk should we make a mistake in the process. Afterwards, these properties were vital in furthering our understanding of rental practices in Mongolia. Having a diverse portfolio was a great training tool for our property management team as it allowed them to focus on finding tenants, customer service, maintenance and dealing with the inevitable problems that crop up. We even got to experiment with renovations and decorating. In every possible way, these properties have exceeded our expectations in terms of rapidly advancing our education in doing business in Mongolia—now it's time to let someone else learn those lessons as we sell these units. Disposing of these two groupings (furnished expat single unit residential and Mongolian single unit residential) will reduce the number of individual units in our portfolio by roughly a quarter and let us better focus on adding to and managing our bigger assets.

At MGG, we find ourselves to be one of the rare property companies in the world that does not utilize any debt in funding our portfolio. This is a result of us being risk adverse investors who shun leverage, however, as our company matures, it makes good business sense to have a moderate level of borrowings to fund our growth. We believe that larger assets will be easier for lenders to identify with and this should allow us to borrow against them at attractive rates. More importantly, larger assets allow us to deal with more corporate customers who are increasingly becoming the mainstay of our property and also our insurance businesses.

While existing structures are our preferred investment opportunity, we believe that a property company has to be proficient at building properties as well. Just like our first foray into property ownership, we intend to start small and minimize the risks as we learn about construction. For 2012, we have very modest plans that include a number of additions to existing properties. We are also exploring the construction of our first de novo structure. We see this as a buildup for us to be able to construct more substantive buildings by 2013. In a future letter, I will speak more about our construction plans for 2012.



Mandal, our insurance company continues to move forward and make progress including the introduction of new products like travel insurance. During the month of January, Mandal moved into its new corporate office on Seoul Street and will open their second Ulaanbaatar retail branch and first claims processing center in that building soon. After some exterior renovations in the spring, the building will be renamed the “Mandal Building”

In summary, as the Mongolian economy continues to evolve, so does our strategy. 2011 was a year where we built up our team and our experiences. We started with small investments and have matured to specializing in larger commercial buildings. We hope that 2012 is the year where we show the value of this education, while learning how to build our own high quality buildings.

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:

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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 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. 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](http://www.sedar.com). The CNSX has not reviewed and does not accept responsibility for the adequacy or accuracy of this release. Source: Mongolia Growth Group Ltd. (CNSX – YAK)

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