

Stock Offering Prospectus

6,000,000 common shares of



"BDSec" Joint Stock Company

In accordance with the "Company law", "Securities market law" and relevant laws of Financial Regulatory Commission of Mongolia, the Issuer is offering 6,000,000 common shares in order to finance working capital and increase share capital of the company to 1,700,000 MNT.

Additional shares offered to the public will be traded through Mongolian stock exchange. Prior to the public offering, shareholders who owned shares of the company as of March 3rd, 2014 will be entitled to exercise preemptive rights offering, in accordance with an article #38 of the "Company law" The remaining shares from rights offering will be sold to the public. The company's ticker registered on Mongolian Stock Exchange is "BDS:522".

Rights offering price:	1,931 MNT
Public offering price:	Will be decided by the BOD based on market price

Amount of raising capital:

Amount at rights offering price:	11,586,000,000 MNT
Amount at market price:	12,876,000,000 MNT

Audit:
BDO Audit

Asset valuation:
Dalaivan Audit

Legal opinion:
Anand Advocates LLP

The Issuer's headquarter



"BDSec" JSC
Headquarter
Sukhbaatar district, Ulaanbaatar city
Zaluuchuud Avenue 27/1

TO THE INVESTORS' ATTENTION

The Issuer is raising capital through additional share issuance in accordance with the "Company Law", "Securities Market Law" and other resolutions of Financial Regulatory Commission of Mongolia.

PLEASE BE REMINDED THAT THE FACT THE FINANCIAL REGULATORY COMMISSION REGISTERED THE SHARES DOESN'T MEAN THE SHARE ISSUANCE IS GUARANTEED. YOU SHOULD ALSO BE AWARE OF THAT PARTICIPATING IN MAKING INVESTMENT THROUGH TRADING SHARES ARE **ALWAYS RISKY** THUS YOU SHOULD CAREFULLY STUDY THIS PROSPECTUS INCLUDE THE PROCESS OF ISSUING SHARES IN ORDER TO MAKE WISE INVESTMENT DECISION.

In accordance with an article 38 of the Company Law, the Isser approved and implemented a resolution of preemptive rights offering

In this prospectus, we tried to include all the information necessary for investors to make an investment decision. Should you need further information, please contact us, "BDSec" JSC. This prospectus will be published in hard-copies and electronic version will be published on Company's website and Mongolian Stock Exchange website.

In the process of preparing this prospectus, we complied with professional responsibilities and ethics and used the financial statements prepared by an auditor in accordance with an article 28 of "Securities market law".

For more detailed information:

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Authorized member of Baker Tilly International Company

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ABBREVIATIONS, TERMINOLOGY

Terminology	Explanation
Underwriter	Service to raise capital from capital market
MSE	"Mongolian Stock Exchange" SOE
FRC	Financial Regulatory Commission
AGM	Annual General Meeting
BOD	Board of Directors
NSO	National Statistical Office
SCHCD	"Securities Clearing House and Central Depository" LLC
JSC	Joint Stock Company
IA	Investment Advisory
LLC	Limited Liability Company
BDS:522	The Issuer's ticker and code on Mongolian Stock Exchange
FPO	Follow-up Public Offering
IPO	Initial Public Offering

Board Chairman Message

Dear investors,

I'm grateful to offer additional shares our company is issuing and on behalf of Board of Directors and the company's management, I would like to express my gratitude to all shareholders and investors interested to purchase our shares.

In the capital market of Mongolia, "BDSec" JSC ([MSE:BDS](#)) conducts broker, dealer, underwriting and investment advisory services in accordance with special permits issued by the Financial Regulatory Commission. As a company, we have executed 26 to 91 percentage of total trading value on Mongolian Stock Exchange in the last 8 years. In a framework of an underwriting service, we have raised approximately 60% of total capital raised on the capital market and we have been constantly providing investment advisory service in order to improve corporate governance for companies we raised capital for.

We have been pursuing a policy and providing investment and complex financial services to encourage domestic manufacturers and to introduce high potential securities by bringing domestic companies into the capital market. In the future, we have planned to expand our business, provide more quality service to our customers, improve and stabilize our branch operations.

In order to finance the above mentioned plans, it was decided by the Shareholders' Meeting on April 18th, 2014 and the Board of Directors on May 15th, 2014 to raise new equity capital by offering 35.29% of the company to public. In accordance with an article #38 of the "Company Law", the shareholders of BDSec JSC are entitled to execute their preemptive rights to buy from additional shares equal to a proportion of their common stock percentage.

We are confident to strengthen company's investment banking business and profitability upon raising new capital from the security issuance.

LKHAGVADORJ.B

BOARD CHAIRMAN

COMPANY INTRODUCTION

BDSec JSC has been operating since 1991 when privatization took place in Mongolia and capital market was established in the country. The company has 23 years of experience in the market.

In 2006, our company was restructured to Joint Stock Company upon a public issuance of 10,000,000 shares through Mongolian Stock Exchange. In 2008, we issued additional 1,000,000 shares in order to finance working capital of the company to have in total of 11,000,000 shares outstanding.

BDSec JSC became the first full-service securities company upon getting special permissions of Underwriting, Brokerage, Dealer and Investment advisory services from Financial Regulatory Commission in 2007.

Diagram 1. Company's mission



We have been constantly expanding our operation in terms of management and strategic aspects and became a leading company of Mongolian capital market. All these can be shown from our client base, securities trading value, underwriting deals, amount of capital raised, financial strength, stable operation and types of services we provide to our clients.

In a framework of our brokerage service, which is the main operation of the company, we have been pursuing a policy to establish our branch offices in large-scale provincial areas of Mongolia in order to reach out new customers and investors, grant an access to them to trade securities, provide timely news and information regarding capital market and improve citizens' capital market knowledge. So far, we have been operating through 8 branches in 8 provinces and Ulaanbaatar city. We have created the largest brokerage network throughout Mongolia by providing our services to in total of over 170 thousand both local and foreign clients.

Between 2007 and 2013, we solely executed 26 to 91% of total securities trading value on Mongolian Stock Exchange. Our highest market share was 91% in 2012.

Through our underwriting service on Mongolian Stock Exchange, we have also executed 65% of total IPO and FPO financing and 36% of bond issuances by public companies.

As a publicly listed company, we constantly provide our operational and financial reports to shareholders and investors in order to strengthen our compliance with corporate governance and financial transparency. Our company's stock is listed on Board A of Mongolian stock exchange. And we have constantly been one of the largest 20 companies in terms of total market capitalization.

Previous security issuances:

In 2006, "BDSec" JSC (the Security Issuer) became a joint stock company upon issuing 10,000,000 (ten million) shares at 100 MNT per share, of which 75% is offered to the public through Mongolian Stock Exchange. Later in August, 2008, the company issued 1,000,000 (one million) additional shares at 100 MNT per share. The shareholders were offered to execute their preemptive rights equal to their ownership proportions. Upon raising additional capital, company's total shares outstanding reached to 11,000,000 (eleven million) shares.

Company's shares are trade on Board A of Mongolian Stock Exchange with a ticker/code of BDS/522. The stock has been one of the most actively traded stocks on the exchange. Also, the company is one of the top 20 companies in terms of market capitalization and is included in TOP 20 index.

Below is the information on company's share shareholders (owning more than 5%) and other small shareholders as of March 3rd, 2014.

Table 1. Company's shareholders' information (as of March 3rd, 2014)

Indicators	Shareholders	Number of shares	Ownership percentage
Shareholders owning more than 5%	4 shareholders	7,415,087	67.4%
Shareholders owning up to 5%	413 shareholders	3,584,913	32.6%

Source: BDBSec JSC, Shareholders' detailed information

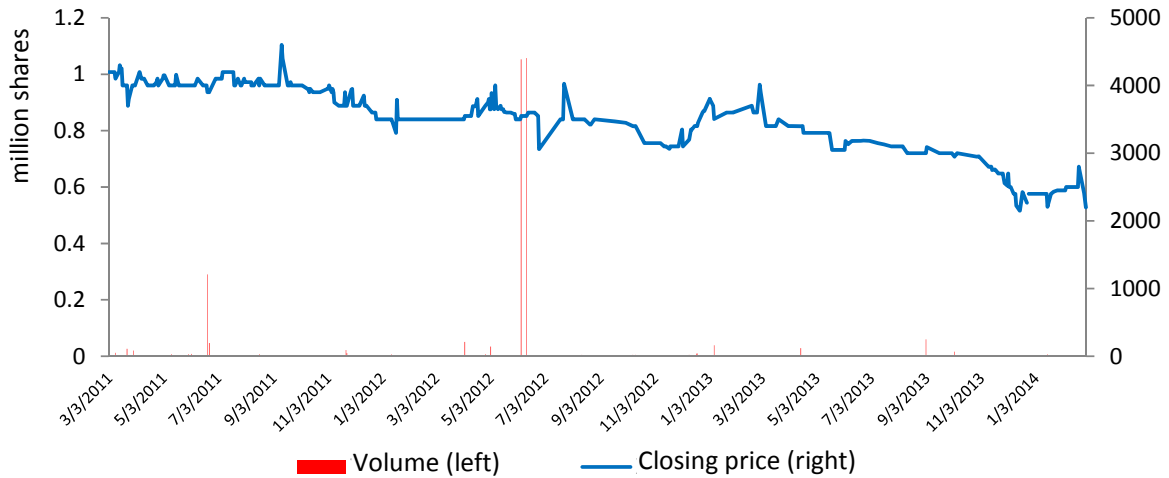
In the last 3 years, company's share price has been ranging between 2150 and 4600 MNT and in total of 15.0 billion MNT worth of shares were traded, which is equal to 39.12% of the total shares outstanding.

Table 2. Stock trading data (as of March 3rd, 2014)

Number of shares traded	4,371,288
Percentage compared to total shares outstanding	39.7%
Value (unit: bil MNT)	15.0
Weighted average price	3,495.1
High value	4,600
Low value	2,150

Source: MSE, BDBSec JSC

Chart 1. Last 3 years of stock trading data of "BDSec" JSC



Source: MSE, BDBSec JSC

Company's shareholders' structure

The below table shows shareholders owning more than 5% of the company as of March 3rd, 2014, a shareholders' registration date.

Table 3. Information of shareholders owning more than 5% (as of March 3rd, 2014)

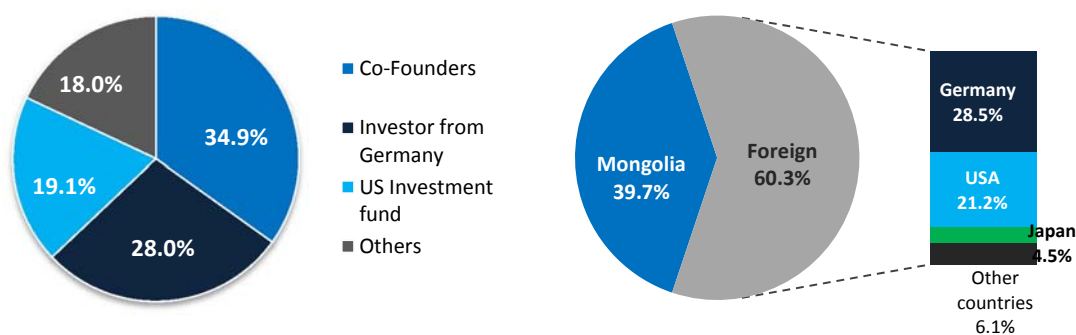
No.	Shareholders	Number of shares	Ownership percentage
1	Alexandr Zwahr	3,080,500	28.0%
2	Dayanbilguun.B	2,704,251	24.6%
3	Firebird GM 2 S.A.R.L	1,054,301	9.6%
4	Firebird MF holdings S.A.R.L	576,035	5.2%
Total		7,415,087	67.4%

Source: BDBSec JSC, Shareholders' detailed information

Shareholder structure as of a registration date is shown below. 34.9% of the company is owned by the founders, 28% is owned by German investor, 19.1% is owned by the USA based investment fund and remaining 17.9% is owned by other shareholders.

In terms of geographical distribution of the company's shares, the highest percentage of 39.7% is owned by Mongolians, 28.5% is owned by Germans, 21.2% is owned by the US investors, 4.5% is owned by Japanese investors and remaining 6.1% is owned by investors of other countries.

Chart 2. Shareholder structure (as of March 3rd, 2014)



Source: BDsec JSC, Shareholders' detailed information

Shares of BDsec JSC is listed on Board A of Mongolian Stock Exchange and below table shows a list of shareholders in terms of countries.

Table 4. Shareholders in terms of countries, alphabetically

No.	Name of a country	No.	Name of a country	No.	Name of a country
1	Australia	2	Austria	3	USA
4	Belgium	5	China	6	Germany
7	Ireland	8	Italy	9	Great Britain
10	Canada	11	Cayman Islands	12	Luxembourg
13	Malaysia	14	Mongolia	15	Netherlands
16	South Africa	17	South Korea	18	Poland
19	Singapore	20	Turkey	21	Philippines
22	Finland	23	France	24	Switzerland
25	New Zealand	26	Japan		

Source: BDsec JSC, Shareholders' detailed information

Company's structure

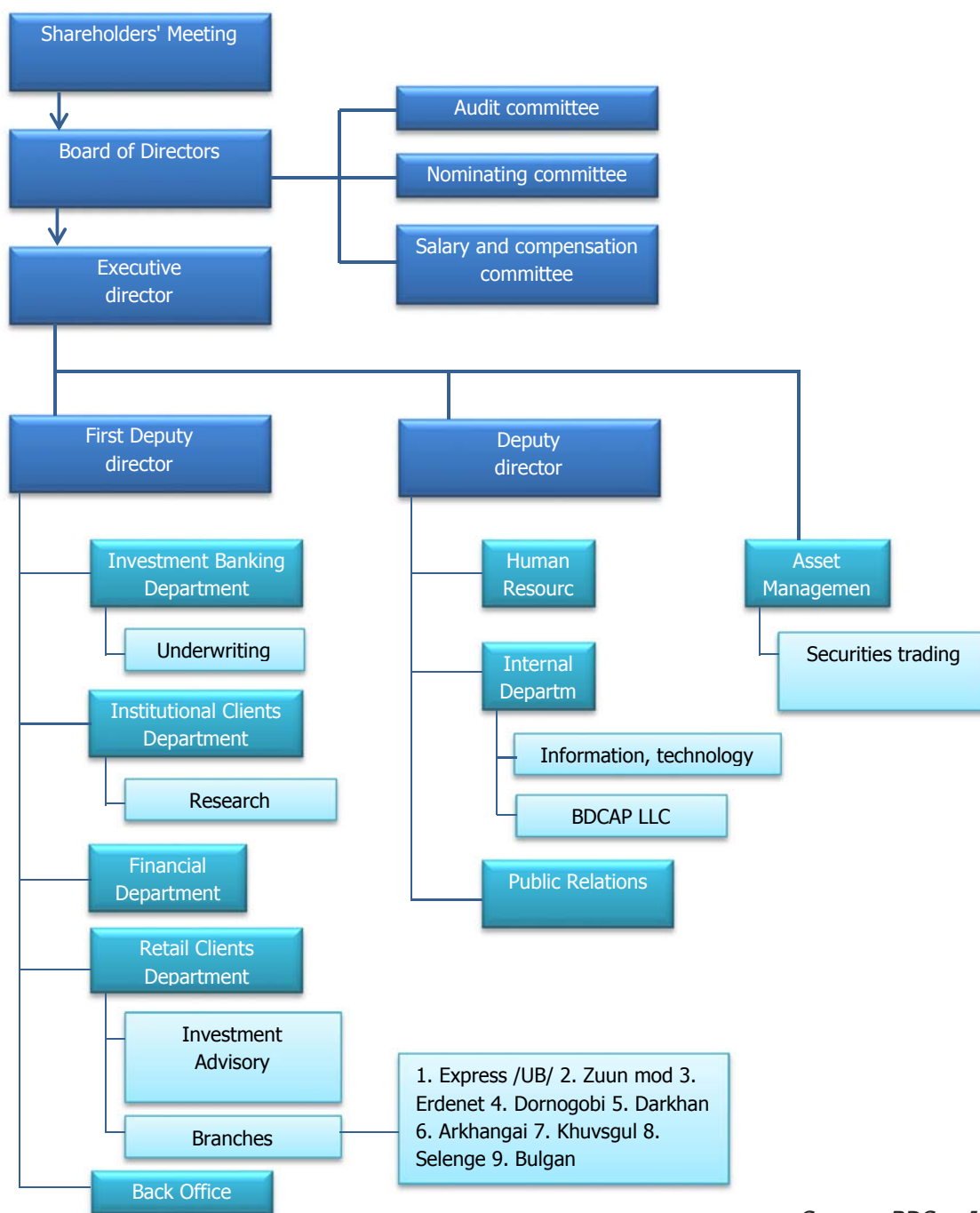
Shareholders' Meeting is the highest governing body of the company, according to the "Company Law". Annual Shareholders' Meeting shall be held within April of a given year. If necessary, Extraordinary Shareholders' Meeting shall be held to make decision on matters related to shareholders' full rights.

Board members shall be appointed by the Shareholders' Meeting. Pursuant to the "Company Law" and a company's charter, Board of Directors shall be responsible for implementing legal rights, company's strategic planning, setting operational directions and monitoring and instructing executive director's actions.

Executive Director shall be in charge of day to day operation of a company in accordance with an agreement made with BOD and other laws and resolutions. First deputy director, deputy director and asset management sections shall be under a direct control of an Executive Director.

As of March 3rd of 2014, our company has 9 departments and employed 35 specialists.

Diagram 2. Company's structure



Source: BDBSec JSC

Investors participating to the capital market have been divided as domestic and foreign investors. Retail and Institutional Clients Departments provide brokerage and investment advisory services, and Investment Banking Department provides underwriting service.

Annual General Meeting

Company's Annual General Meeting is held within April of a given year and makes decisions on BOD, operational report of an Executive Director, operational plan, appointing Board members, issuing, splitting or merging securities which all shall be executed pursuant to the "Company Law" and other relevant laws and resolutions.

Board of Directors

In an absence of Shareholders' Meeting, Board of Directors (BOD) shall be the governing body of the company. Board of Directors shall be responsible for setting main operational direction, appointing and overseeing executive director and other tasks and duties stated in the Company Law and other relevant laws and regulations. BOD of the Issuer shall have more than 9 members with 1 year term. Current Board members were appointed by the Annual General Meeting as of April 18th, 2014.

Table 5. Board members

No.	Full name, position	Work experience	Share ownership
1.	LKHAGVADORJ Burenmend Board Chairman First Deputy Director of BDSec JSC	38 years old, majored in oil engineer and graduated from the Mongolian University of Science and Technology (MUST). Lkhagvadorj.B is one of the founders of the Issuer and he has 15 years of experience working in the capital market of Mongolia. He works as the First Deputy Director of the Issuer.	Owns 4.3% of the company.
2.	DAYANBILGUUN Danzan Board member Executive Director of BDSec JSC	38 years old. Got a bachelor degree in business and economics from European Language Institute in 1997 and got Master of Business Administration from Institute of Finance and Economics in 2005. Dayanbilguun.D is one of the founders of the issuer and he has been working as an Executive Director of the company since 1997.	Owns 24.6% of the Issuer.

<p>3. BATGEREL Narangerel Board member Deputy Director of BDSec JSC</p>	<p>40 years old. Majored in International Affairs and graduated from School of Foreign Studies, National University of Mongolia in 1999. He has 7 years of work experience in the capital market. He is one of the founders of the Issuer and he has been working as the Deputy Director, in charge of Human Resource, of "BDSec" JSC.</p>	<p>Owns 3.0% of the Issuer.</p>
<p>4. James CHRISTOPHER PASSIN Board member Investment manager of Firebird Management LLC.</p>	<p>42 years old An American citizen. James Passin majored in philosophy and literature and graduated from St.John's college. He has many years of work experience in international capital markets. He has been working as an investment manager of Firebird Management LLC since 1999 and is a founder of Firebird Global Fund and Firebird Global Fund II. He is a board member of "National Investment Bank of Mongolia", "Sharyn Gol" JSC and other companies.</p>	<p>Investment Funds of Firebird Management LLC owns 19.1% of the Issuer.</p>
<p>5. AMGALANBAYAR Daramranz Independent board member Administrative officer of MSM LLC</p>	<p>38 years old. Majored in Economics and graduated from School of Economics, National University of Mongolia in 1997. He has been working for "BDSec" JSC and Rock Oil LLC since 1997. He has work experience in a capital market, mining and trading sectors. Currently works as an administrative officer of MSM LLC.</p>	<p>Owns 3.0% of the Issuer.</p>
<p>6. HITOSHI Tani Independent board member Founder and director of EXE corporation.</p>	<p>59 years old. A citizen of Japan. Graduated from Tokyo University in 1979. He started his career by working in Mitsubishi Corporation, one of the largest corporations in Japan. In 1991, he founded an investment company the "EXE Corporation" and has been working as a Director ever since. Including its group companies, EXE Corporation has around 300 employees. The company executes investment services in Japan and other Asian countries. The company has branches in Mongolia and Myanmar.</p>	<p>Owns 1.8% of the Issuer.</p>

<p>7. ENKHBAYAR Bayartogtokh Independent board member Executive director of Sanaa EXE Group LLC</p>	<p>33 years old. Majored in Economics. He works as an Executive Director of "Sanaa EXE Group", a branch of EXE Corporation in Mongolia.</p>	<p>Owns 100 shares of the Issuer.</p>
<p>8. Alexis DE MECQUENEM Independent board member Executive director of Sanaa EXE Group LLC</p>	<p>31 years old. A citizen of France. Alexis De Mecquenem got his master degree from ESSCA School in financial analysis and investment banking. He works as an Executive Director of "Cube Capital HK" LLC which invests in real estate in Mongolia, Vietnam and Myanmar.</p>	<p>Doesn't own any shares of the Issuer.</p>
<p>9. AMARSANAA Baljinnyam Independent board member Executive Director of Khereeji LLC.</p>	<p>36 years old. Majored in International Relations and graduated from School of Foreign Service, National University of Mongolia in 1999. He worked as a specialist in Ministry of Foreign Affairs, an Executive Director of "Bulgan Gol" LLC and worked in market and information technology. He has been working as an Executive Director of "Khereeji" LLC since 2006.</p>	<p>Doesn't own any shares of the Issuer.</p>

Board Secretary:

Davaajargal.M was appointed as a board secretary of the Issuer in accordance with a resolution No.02 of BOD as of May 15, 2014. She has been working as a board secretary since.

Majored in financial management and graduated from Institute of Finance and Economics in 2011. She was employed for the Issuer in 2011.

Board committees:

According to the "Company Law", which was amended in 2011, public companies shall have permanent as well as temporary committees focusing on specific matters under the Board. In order to comply with the law, the Issuer appointed committee members of salary and compensation, audit committee, nominating committee in accordance with resolution number 03, 04, 05 approved by the Board on May 15th, 2014. The committees have been operating in a legal framework specified by the laws and regulations.

Table 6. Board committees:

Salary and compensation committee	<ol style="list-style-type: none">1. Batgerel.N /Committee chairman/2. Amarsanaa.B3. Amgalanbayar.D
Audit committee	<ol style="list-style-type: none">1. Hitoshi Tani /Committee chairman/2. James Passin3. Amgalanbayar.D
Nominating committee	<ol style="list-style-type: none">1. Dayanbilguun.D /Committee chairman/2. Enkhbayar.B3. Alexis De Mecquenem

Executive management

Company's management is run by a management team led by the Executive Director, First Deputy Director and Deputy Director. Dayanbilguun.D, one of the founders of the Issuer, has been working as an Executive Director of the company since 1997.

The below table shows authoritative bodies of the Issuer.

Table 7. Information of Authoritative bodies of the company (as of March 3rd, 2014)

No	Full name	Age	Major	Number of years worked for the company	Position
1	DAYANBILGUUN Danzan	38	Master of Business Administration (MBA)	17	Executive Director
2	LKHAGVADORJ Burenmend	38	Oil Engineer	16	First Deputy Director
3	BATGEREL Narangerel	40	International Affairs	8	Deputy Director
4	NICK Cousyn*	44	Economist	2	Chief Operating Officer
5	PUREVSUREN Sukh	39	Auto-Engineer	10	Internal Department Manager
6	TSOG Tseyeregzen	28	Master of Financial Management	7	Manager of Investment Banking Department
7	MUNKHTULGA Ganbold	27	Business Management	7	Manager of Institutional Clients Department
8	SHINEBAYAR Sharaa	34	Business Management	7	Manager of Retail Clients Department
9	URANBAIGALI Odgiiv	28	Accounting	6	Manager of Back Office
10	OTGONJARGAL Tumurdavaa	25	Accounting	3	Manager of Financial Department

* - Nick Cousyn, Chief Operating Officer of the Issuer, majored in economics and graduated from University of California. He has an extensive work experience in capital market, worked for Imperial Credit Industries, Deutsche Bank, Wells Fargo Institutional Brokerage & Sales, Natexis Banque Populaires, FTN Midwest Securities, CRT Capital Group and other financial institutions for over 18 years.

Introduction of "BDCAP" LLC, a daughter company of the Issuer

"BDSec" JSC established 100% wholly owned subsidiary company "BDPIF" in accordance with a Board resolution of July 16th, 2007. The subsidiary company was registered under registration number: 5157781 and state certificate number: 9011117032 on August 15th, 2007.

On September 14th, 2007, the subsidiary company's name was changed to "BDCAP" LLC from "BDPIF" LLC.

In accordance with an agreement made with its parent company, "BDPIF" LLC is responsible for a completeness and an usage of an office building and sites of "BDSec" JSC in order to ensure the parent company's stable operation.

In accordance with an agreement made with its parent company, "BDCAP" LLC is responsible for renting 576.7 square meters of 21 office rooms between 3rd and 5th floor of the office building.

"BDCAP" LLC is a wholly owned subsidiary of "BDSec" JSC, thus in accordance with an article 6.4 of the "Company Law", "BDCAP" LLC reports independent financial statements and "BDSec" JSC consolidates its financials with "BDCAP" LLC.

As of 2013, "BDSec" JSC reported 150,364,282.45 MNT of sales revenue, 44,735,162.64 MNT of profit before tax and 40,261,646.38 MNT of after tax net profit.

Financial indicators (unit: thousand MNT)

Balance sheet	2011	2012	2013
Current Asset	1,764,105.91	3,646,522.53	28,793,353.62
Non-current Asset	26,098,621.89	14,178,394.82	9,652,348.69
Amount of Total Asset	27,862,727.80	17,824,917.35	38,445,702.31
Short term liability	93,905,359.00	68,317,262.36	50,880,991.80
Long term liability	-	-	-
Amount of total liability	93,905,359.00	68,317,262.36	50,880,991.80
Amount of shareholders' equity	(66,042,631.00)	(50,492,345.00)	(12,435,289.48)
Amount of Debt and Equity	27,862,727.00	17,824,917.35	38,445,702.31

"BDCAP" LLC currently employs eight employees and Purevsuren Sukh works as an executive director. Human resource:

- Plumber - 2
- Driver - 2
- Servant - 2
- Cook - 1

OPERATION OF THE ISSUER

With our mission "**To position ourselves in the market as a leading and internationally qualified financial organization, to promote industries through investment and comprehensive financial service**", we have been operating since 1991.

Our company's main operations are Brokerage - to intermediate securities trading for both local and domestic investors, and Underwriting - to raise capital necessary for companies from the market through securities issuance.

We also provide Investment advisory service in order to assist companies to be listed on stock exchange, strengthen corporate governance, raise capital for a profitable projects and help citizens to trade securities.

The team of BDSec JSC of managers, advisors and specialists is comprised of people who are highly qualified and specialized in both local and foreign capital markets. Thus, we have been offering high quality services to our customers and all the operations of our company comply with Mongolian laws and regulative bodies' regulations. All the operational aspects and market position of "BDSec" JSC have always been better compared to similar companies.

Thus, well known domestic companies, commercial banks, foreign investment funds and world-standard banks choose our company for their businesses.

Brokerage

We have been providing timely service to our customers and investors to enable them to buy securities from the market and we always strive to better our services for our customers.

For example, we have increased the number of our branches throughout Mongolia to 9 and introduced Tel-E brokerage service for local clients and enable a trading hall for them.

We also provide timely and relevant stock market news, information, research and other recommendations and advices to our customers and public in compliance with relevant laws and regulations.

Tel-E brokerage service



Through our Tel-E service, our clients can participate to stock trading on the stock exchange using phone, fax and email regardless of their locations.

We introduced this service in 2008 for the first time in the capital market of Mongolia. This service closely matches with our customers' needs and became one of the improvements for the participants on the stock exchange.

Trading hall



We have created a comfortable space for our investors and customers to enable them to directly participate to the stock trading. One third of our active customers participate to the stock trading through our trading hall.

We have introduced a trading hall in our headquarter and a branch office in Ulaanbaatar city. In the future, we plan to introduce trading halls to our branches in provincial areas.

Training and Advice



Local participants of the stock exchange have become active in the last years. Also, because of the share distribution of Erdenes Tavan Tolgoi, the largest untapped coking coal mine in the world, both local and foreign investors are getting more interested to the market.

As knowledge base of local participants regarding the stock market is low, our company has been conducting training and advisory programs to improve their knowledge.

Since 2008, we have started our elementary level training program of capital market and since that time, in total of over 5000 citizens were covered by this program. Also, we by ourselves and along with Financial Regulatory Commission, Mongolian Stock Exchange and Mongolian Association of Securities Dealers, have organized number of events for local enterprises in large provinces of Mongolia.

News and Research

We provide daily, weekly trading news and information to our customers. We also publish research notes on the market, public companies and economy in both electronic and hard copy forms.

Services for professional investors:

Research and analysis

For our both local and foreign professional investors, we publish international standard in-detail research notes regarding Mongolian economy, capital market and public companies.

We have adapted theoretical research methodologies to the situation of Mongolian market and we make comparisons with companies in other developing markets to give our recommendations and conclusions for the investors. Since 2012, our research team has been led by Nick Cousyn, who has over 18 years of work experience in a capital market of the US.

Investor conference

We also regularly organize meetings with public companies, government and state entities for our local and foreign investors and anyone who is interested to invest in Mongolia.

Block trade

We organize block trades between large-scale investors who would like to purchase significant part of the company and the company shareholders or we help large shareholders to look for a buyer to dispose their shares.

Back Office

In accordance with a cooperation agreement between Mongolian Stock Exchange and London Stock Exchange, a new trading system called Millennium IT (MIT) was introduced to the stock exchange in July, 2012. As a result, trading settlements started to be handled by commercial banks. Because of this development, brokerage companies had to adapt their operations to this new system.

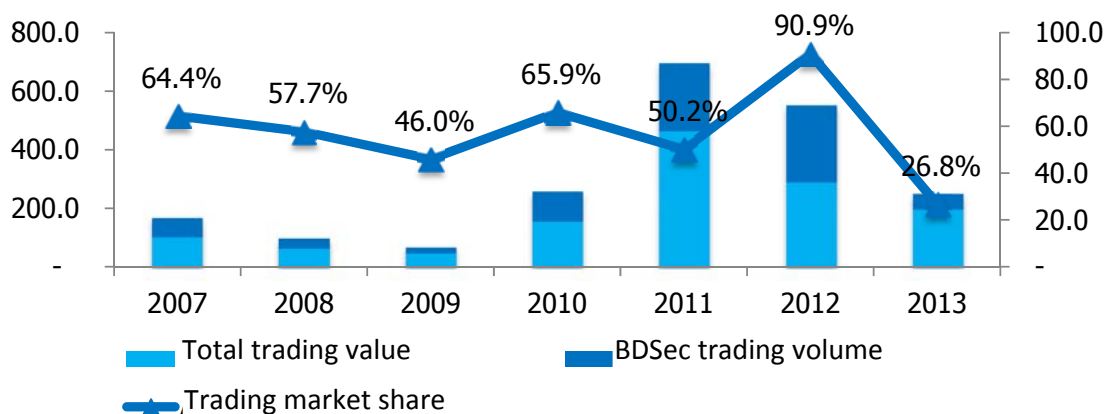
In 2012, BDSec JSC established a new department - Back Office in order to execute clearing and T+3 settlement, conduct settlement registration and monitoring. Clients' order execution and trading procedures comply with market requirements and relevant laws and regulations.

Brokerage service indicators

The role and position of BDSec JSC on the stock exchange shows our operational scope and market position.

In the last 7 years, we solely executed between 27% and 91% of the total trading on the stock exchange, which implies we are one of the leading brokerage companies in the market.

Chart 3. Securities trading information

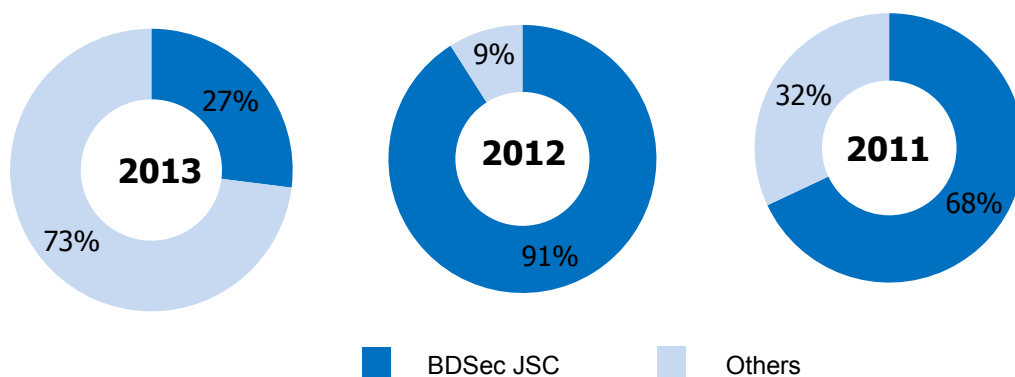


Source: MSE

Stock trading

In total of 197.2 billion MNT worth of stock traded on Mongolian Stock Exchange as of 2013 of which 52.9 billion MNT or 26.9% was executed by BDSec.

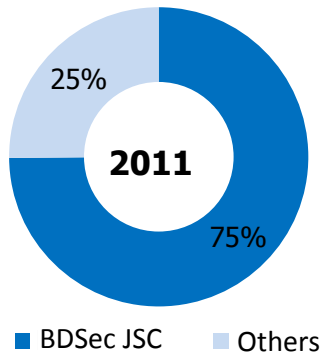
Chart 4. Stock trading market share



Source: MSE

Corporate bond trading

In 2011, BDSec JSC executed 6.6 billion MNT worth of bond trading, which is 75% of total bond trading on the Stock exchange.



According to the "Company Law" amended in October 2011, limited liability companies are prohibited from issuing bonds to the public on the stock exchange. This resolution limited a development of the stock exchange and basically stopped the bond issuance on the primary market.

In 2011, Just Agro LLC issued "Mongol Meat" Bond (MMB) to public and successfully raised 4.4 billion MNT. Because of the new regulation, Just Agro LLC became the last company raised bond financing on the stock

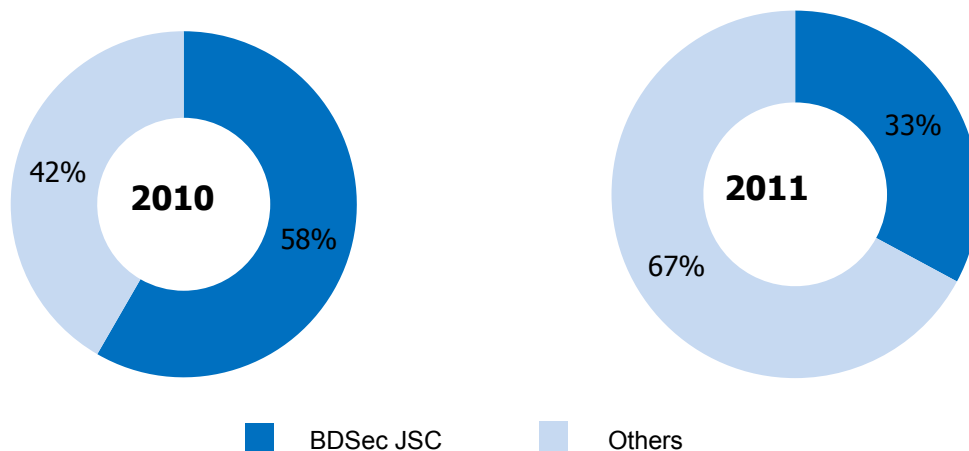
exchange.

Government bond trading

BDSec JSC is one of the active participants of the Government bond trading. The company executed 58% or 17.5 billion MNT worth of government bond trading in 2010 and 33% in 2011.

In a cooperative resolution approved by the Ministry of Finance and the President of Bank of Mongolia on October 25th, 2012, primary market trading of government bonds started being traded through Bank of Mongolia and as a result, primary market government bond can't be traded on Mongolian Stock Exchange.

Chart 5. Government bond trading between 2010 and 2011



Source: MSE

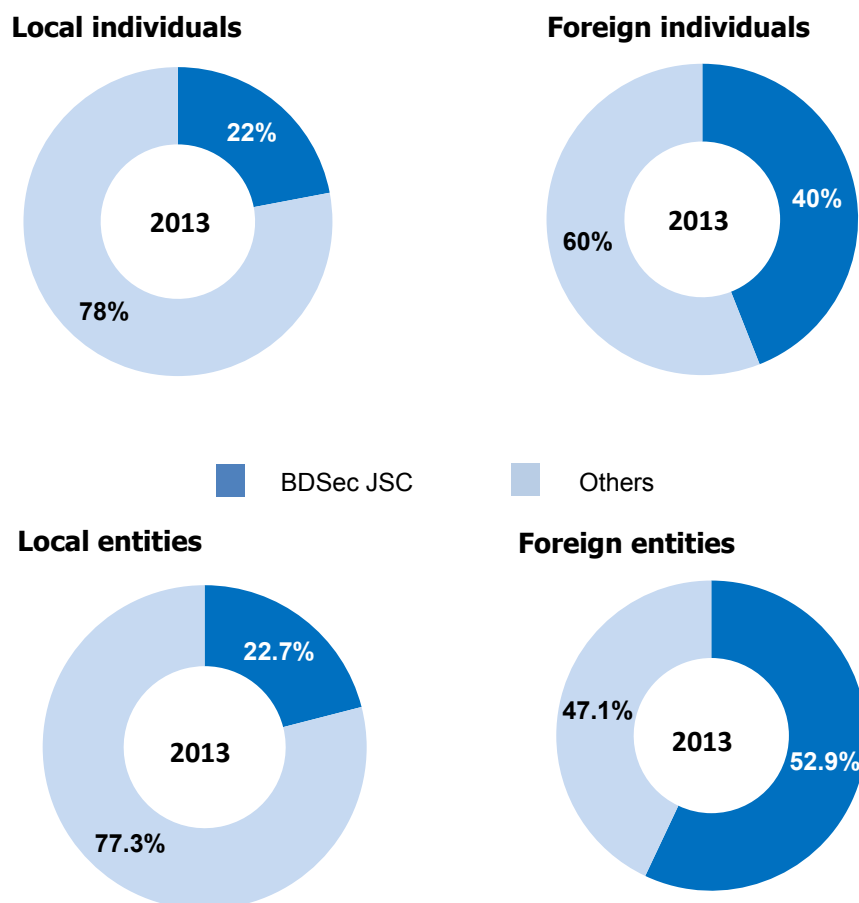
Client base

Number of clients, who can participate to a stock trading, of BDSec JSC reached 170,545 as of 2013, which is 22.7% of the total participants of the stock market.

There are in total of 766,961 citizens who have securities account, which accounts 26.7% of total Mongolian population.

There are in total of 2,551 corporate accounts registered at the "SCHCD" of which 581 corporate accounts are clients of BDSec JSC.

Chart 6. Clients' breakdown

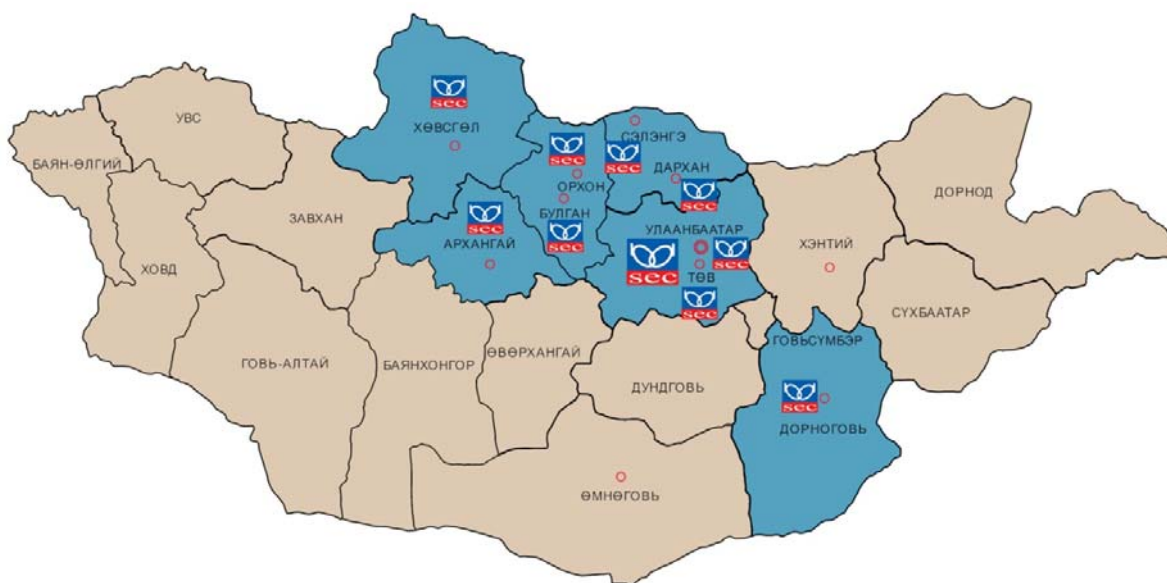


Source: MSE, SCHCD

Brokerage network

In order to establish widespread network and deliver quality services, BDSec JSC opened its branch offices in Tuv, Khuvsgul, Orkhon, Darkhan-Uul, Arkhangai, Bulgan, Dornogobi, Selenge provinces in order to reach out clients in provincial areas.

Picture 1. Branch locations of the Issuer



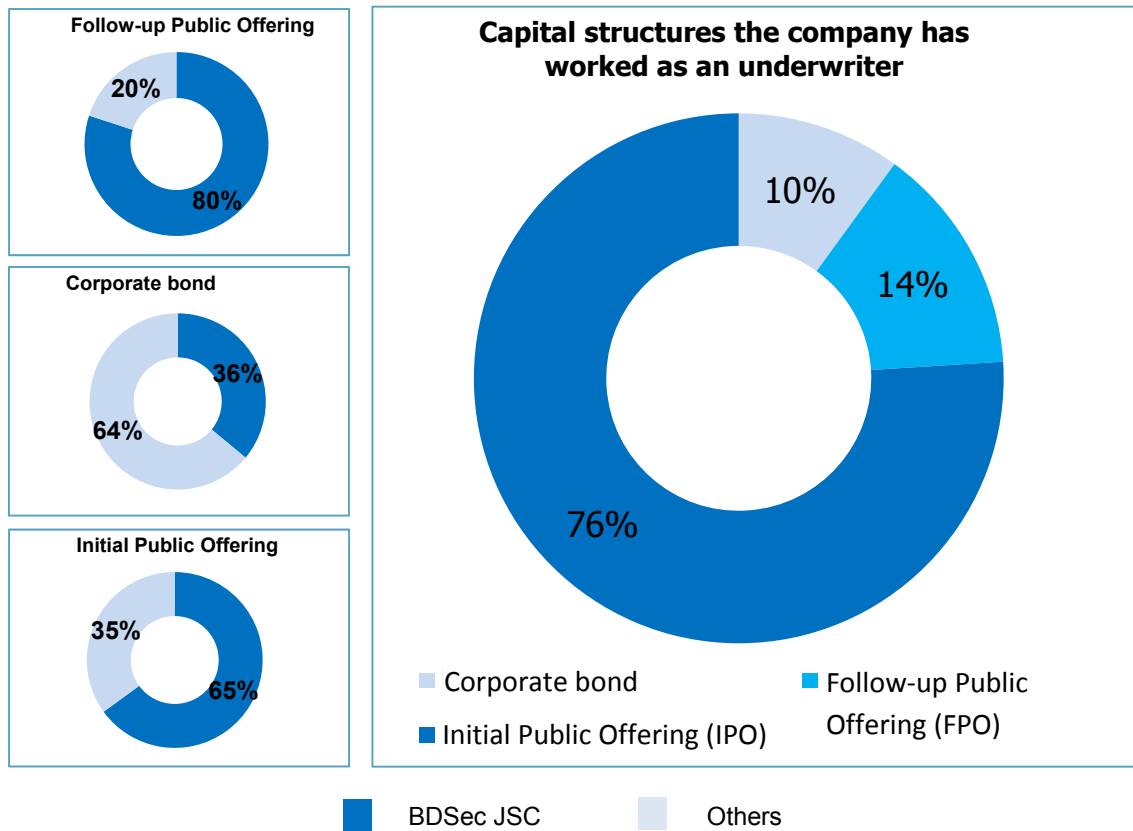
Underwriting

BDSec JSC strives by all means to support and encourage national manufacturers and companies that can contribute to economic and manufacturing development of the country. We have gained significant experience by working as an underwriter on both bond and equity financing.

As of 2013, in total of 18 companies raised capital through Initial Public Offering (IPO), of which 65% or 51.4 billion MNT worth of deal was underwrote by BDSec JSC.

We have also worked as an underwriter on 80% of the total follow-up public offering deals to raise in total of 9.45 billion MNT worth of capital. In terms of corporate bonds, we have underwrote 6.4 billion MNT worth of deals.

Chart 7. Underwriting service indicators



Source: MSE, BDBSec JSC

Investment advisory

"BDBSec" JSC was granted an investment advisory special permits by Financial Regulatory Commission in 2007. Within a framework of this permission, we provide professional advisory service to securities issuers. Starting from 2009, we expanded our Investment advisory service to individuals interested in investment.

Within this scope, based on public information of listed companies, we publish research notes and give independent advice and recommendations to buy and sell securities to our clients.

For example, we created a list of "30 standard companies" from MSE listed companies based on their transparency and profitability indicators. And we publish fundamental research notes based on this companies to inform our customers.

Starting from 2013, we have established a corporate advisory branch in order to promote transparency and compliance with obligations taken for shareholders. As a result, public companies have an access to services to organize Annual Shareholders' Meeting with high professionalism.

Picture 2. Introduced investment advisory service to the market



Source: MSE, BDBSec JSC

As of today, our Investment advisory branch has made investment service agreements with in total of 18 companies. We also organize arrangements for MSE listed companies with low stock liquidity to restructure into closed companies.

FINANCIAL INDICATORS

Table 8. Balance sheet

Balance sheet	2013 thous.MNT	2012 thous.MNT	2011 thous.MNT
Asset			
<i>Current Asset</i>			
Cash and cash equivalents	857,856	661,214	88,577
Short term investment	4,096,218	4,387,242	5,303,268
Trading and other receivables	1,290,441	938,103	265,116
Amount of current assets	6,244,515	5,986,559	5,656,961
<i>Non-current Asset</i>			
Net fixed asset	3,396,621	3,660,528	3,652,941
Net intangible asset	3,330	1,260	2,050
Long term investment	1,081	2,081	434,301
Long term receivables	104,261	97,598	75,647
Deferred tax asset		2,195	2,988
Amount of non-current asset	3,505,293	3,763,661	4,167,926
Total asset	9,749,808	9,750,220	9,824,887
Debt			
<i>Short term liability</i>			
Trading liability	104,459	202,030	317,965
Tax payable	12,696	17,187	119,124
Dividend payable	660,000	-	550,000
Prepaid income	10,000	-	30,000
Amount of short-term liability	787,156	219,217	1,017,089
<i>Long term liability</i>			
Deferred tax liability	44,542	61,946	139,099
Amount of long-term liability	44,542	61,946	139,099
Amount of debt	831,698	281,163	1,156,188
Equity			
Share capital	1,100,000	1,100,000	1,100,000
Additional paid in capital	2,825,305	2,825,305	2,825,305
Asset revaluation	1,300,244	1,300,244	1,300,244
Unrealized securities gain, loss	400,877	557,512	1,251,891
Accumulated profit	3,291,685	3,685,997	2,191,259
Amount of equity	8,918,111	9,469,057	8,668,698
Amount of debt and equity	9,749,808	9,750,220	9,824,887

Table 9. Income statement

Income statement	2013	2012	2011
	thous.MNT	thous.MNT	thous.MNT
Sales revenue	2,446,064	5,777,990	5,037,309
Cost of traded securities	(650,221)	(1,093,568)	(811,212)
Gross profit	1,795,843	4,684,422	4,226,097
Rental income	150,364	120,565	
Financial income (expense)	32,759	42,006	
Operational expense	(1,628,571)	(3,108,205)	(2,641,126)
Operational profit	350,395	1,738,787	1,584,972
Non-operational profit	463	1,407	10,807
Non-operational expense	(27,890)	(74,659)	(34,337)
Profit before tax	322,969	1,665,534	1,561,441
Tax expense	(35,086)	(174,140)	(159,508)
Net profit after tax	287,883	1,491,394	1,401,933
Dividend per share (MNT)	26	136	127

Table 10. Cash flow statement

Cash flow	2013	2012	2011
	thous.MNT	thous.MNT	thous.MNT
Cash flow from main operations			
Cash receipts from sales and customers	1,534,718	4,284,489	3,618,113
Cash flow from sub-operations	124,633	15,567	
Cash receipts of insurance compensation	1,526	15,857	7,432
Other cash receipts		15,454	30,042
Cash receipts from customers	7,685,474	133,837,510	65,268,414
Cash receipts of operating activities	9,346,351	138,168,877	68,924,000
Cash paid to employees	(396,552)	(321,351)	(223,951)
Cash paid to social insurance organization	(99,910)	(78,064)	(54,532)
Cash paid for purchase of raw materials & payment to suppliers	-		(141)
Cash paid for utility expenses	(99,432)	(36,188)	(52,619)

Cash paid for fuel, petrol, spare parts and transportation	(42,768)	(24,437)	(52,254)
Other cash paid to suppliers	(294,642)		(2,875)
Interest paid	-		(1,987)
Taxes paid	(43,908)	(339,623)	(98,486)
Insurance expense paid	(898,404)	(1,618,961)	(1,729,058)
Others	-	(852,967)	(376,538)
Cash paid to customers	(7,676,131)	(134,235,550)	(65,233,995)
Cash disbursement of operating activities	(9,551,746)	(137,507,141)	(67,826,435)
Cash flows provided by (used in) operating activities	(205,395)	661,735	1,097,566
Cash flows of investing activities			
Cash receipts from the disposal of fixed assets	1,000	6,708	
Cash disbursement for the purchase of fixed assets	(12,813)	(254,572)	(564,802)
Cash receipts from the disposal of investments	941,840	1,575,388	1,072,228
Cash disbursement for the purchase of investments	(533,237)	(949,074)	(1,805,884)
Received interest and dividend	3,312	8,189	1,095
Cash flows provided by (used in) investing activities	400,103	386,640	(1,297,363)
Cash flows of financing activities			
Proceeds from issuance of shares			
Loan received from banks	300,000	1,372,805	9,077,528
Cash disbursement for loan payments	(300,000)	(1,372,805)	(8,826,035)
Cash donation paid		(10,000)	(56,706)
Cash dividends paid	-	(550,000)	
Cash interest and premium income	10,534	28,747	11,181
Currency exchange difference	(8,600)	55,514	21
Cash flows provided by (used in) financing activities	1,934	(475,738)	205,989
Net cash flows	196,641	572,637	6,192
Beginning balances of cash and cash equivalents	661,214	88,577	82,385
Ending balances of cash and cash equivalents	857,856	661,214	88,577

Financial analysis

Table 11. Balance sheet analysis between 2011 and 2013

Indicators	2013	2012	2011	Average
Cash and cash equivalents	8.80%	6.78%	0.90%	5.49%
Short term investment	42.01%	45.00%	53.98%	47.00%
Receivables	13.24%	9.62%	2.70%	8.52%
Amount of current assets	64.05%	61.40%	57.58%	61.01%
Fixed asset	34.84%	37.54%	37.18%	36.52%
Investment and other assets	1.11%	1.06%	5.24%	2.47%
Amount of non-current asset	35.95%	38.60%	42.42%	38.99%
Total asset, by percentage	100%	100%	100%	100%
Amount of short term debt	8.07%	2.25%	10.35%	6.89%
Amount of long term debt	0.46%	0.64%	1.42%	0.84%
Amount of total debt	8.53%	2.88%	11.77%	7.73%
Share capital	11.28%	11.28%	11.20%	11.25%
Additional paid in capital	28.98%	28.98%	28.76%	28.90%
Shareholders' equity	17.45%	19.05%	25.98%	20.83%
Accumulated profit	33.76%	37.80%	22.30%	31.29%
Amount of shareholders' equity	91.47%	97.12%	88.23%	92.27%
TOTAL AMOUNT OF DEBT AND EQUITY	100%	100%	100%	100%

Analyzing the capital structure, amount of current asset accounts more than 60% of the total asset which is because of the Issuer's operational uniqueness. Regarding the current asset breakdown, short term investment accounts most of the current asset which is the short term asset owned by the Issuer under its dealer's (investment) operation. Accounts receivable is generally stable and most of the receivables are classified as normal. Liquid asset accounts most part of the total asset.

As per non-current asset which accounts 36% of the total asset, most of the non-current asset is company's office building and its fixed assets.

91% of the Issuer's source of the financing is from internal financing. In 2013, amount of debt increased sharply from 2.8% to 8.5% of the total liability. This is because of unpaid dividend of 60 MNT per share in 2012, which was classified as dividend payable in the financial statement of 2013. Debt payable ratio using company's own resource is strong in short, medium and long period.

Table 12. Income statement of structure analysis between 2011 and 2013

Indicators	2013	2012	2011	Average
Amount of sales revenue	100%	100%	100%	100%
Cost of Goods Sold	24.73%	18.41%	16.10%	19.75%
Gross profit	75.27%	81.59%	83.90%	80.25%
Operational expense	61.94%	52.32%	52.43%	55.57%
Operational profit	13.33%	29.27%	31.46%	24.69%
Non-operational profit (loss)	-1.04%	-1.23%	-0.47%	-0.91%
Profit before tax	12.28%	28.04%	31.00%	23.77%
Income tax	1.33%	2.93%	3.17%	2.48%
Profit after tax	10.95%	25.11%	27.83%	21.30%

Through the analysis of an income statement of the Issuer, the following points can be made:

Approximately 25% of the total sales revenue comes from dealer's operation and securities bought through an underwriting operation.

Operational profit accounted around 30% of the total sales revenue between 2011 and 2012 whilst it declined to 13% in 2013. Of the operational expense, salary expense accounts 34%, commission expense which is unique to the company's operation accounts 22% and depreciation expense accounts 17%. Profit before tax accounts 12% and net profit accounts 11% of the sales. Financial indicators of 2013 have been lower than that of previous periods due to economic and market slowdowns.

Table 13. Financial statement comparison analysis between 2011 and 2013

	2013	2012	2011	Average
Income Statement				
Sales Growth	-58%	15%	88%	15%
Gross margin	75.27%	81.59%	83.90%	80.25%
Operating margin	13.33%	29.27%	31.46%	24.69%
EBITDA Margin	23.01%	32.06%	33.27%	29.45%
Tax rate	1.33%	2.93%	3.17%	2.48%
Net income margin	10.95%	25.11%	27.83%	21.30%
Balance Sheet				
Debt/Equity	9.33%	2.97%	13.34%	8.54%
Asset turnover	27%	61%	51%	46.39%
Current ratio	7.93	27.31	5.56	13.60
Mixed Ratios				
ROE	3%	16%	16%	11.72%
ROIC	4%	18%	16%	12.63%
ROA	3%	15%	14%	10.84%
Depreciation as % of PP&E	7%	6%	3%	4.94%
Valuation				
P/E	91.70	26.73	27.46	48.63
EV/EBIT	79.90	23.77	24.66	42.77
EV/EBITDA	43.63	20.80	22.97	29.13

Financial position analysis of the Issuer:

- Between 2010 and 2012, the company's sales revenue had an average growth of 52%, however, in 2013, due to market slowdown, sales revenue decreased by 58% compared to the previous year.
- Company's gross profit is 75%, net profit is 11% and operational profit is 13% of the sales revenue.
- Debt and equity ratio of the last 3 years has been on average of 8% which implies high solvency ratio.
- As the capital market has been in recession in the last two years, the Issuer's profitability ratios have also been negatively affected by it.

Mongolian economy

Between 2011 and 2013, Mongolian economy was growing in double digits which drew lots of attention of foreign investors.

In 2013, the country's GDP grew by 11.7% of which 5.1% was from manufacturing sector, 4.3% was from service sector and the remaining 2.0% was from agricultural sector. Construction sector had the highest growth rate of 66.5% whilst wholesale, transportation and warehouse services had the lowest growth rate of 1.6%. In 2013, nominal GDP grew by 25.2% to reach 17,550.2 billion MNT. Mining sector increased by 20.7% in 2013 which was because of the commencement of Oyu Tolgoi mine in July 2013.

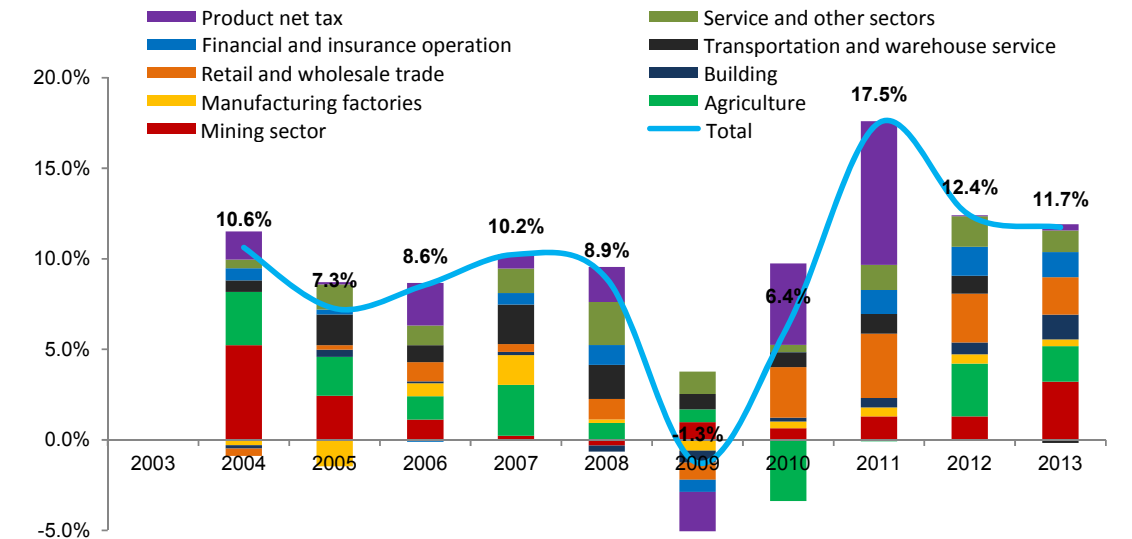
Table 14. Real GDP, by sectors (billion MNT)

Sectors	2007	2008	2009	2010	2011	2012	2013
Total	3,640.0	3,964.0	3,913.7	4,162.8	4,891.8	5,498.5	6,144.2
<i>Growth</i>	<i>10.2%</i>	<i>8.9%</i>	<i>-1.3%</i>	<i>6.4%</i>	<i>17.5%</i>	<i>12.4%</i>	<i>11.7%</i>
Mining	683.8	672.6	711.5	736.9	791.0	854.5	1,031.2
<i>Growth</i>	<i>1.1%</i>	<i>-1.6%</i>	<i>5.8%</i>	<i>3.6%</i>	<i>7.3%</i>	<i>8.0%</i>	<i>20.7%</i>
Agriculture	734.1	768.4	796.3	664.2	660.7	803.2	911.3
<i>Growth</i>	<i>14.4%</i>	<i>4.7%</i>	<i>3.6%</i>	<i>-16.6%</i>	<i>-0.5%</i>	<i>21.6%</i>	<i>13.5%</i>
Manufacturing	250.8	257.5	234.3	248.6	269.2	294.5	314.6
<i>Growth</i>	<i>27.5%</i>	<i>2.7%</i>	<i>-9.0%</i>	<i>6.1%</i>	<i>8.3%</i>	<i>9.4%</i>	<i>6.8%</i>
Electricity, thermal and water power	98.8	106.8	113.4	112.8	122.3	126.6	133.8
<i>Growth</i>	<i>6.3%</i>	<i>8.2%</i>	<i>6.1%</i>	<i>-0.5%</i>	<i>8.5%</i>	<i>3.5%</i>	<i>5.7%</i>
Construction	90.9	78.4	51.7	60.2	81.7	113.5	189.0
<i>Growth</i>	<i>7.2%</i>	<i>-13.8%</i>	<i>-34.0%</i>	<i>16.5%</i>	<i>35.6%</i>	<i>38.9%</i>	<i>66.5%</i>
Wholesale and retail trading	274.3	315.5	278.2	387.5	535.8	667.5	781.2
<i>Growth</i>	<i>5.5%</i>	<i>15.0%</i>	<i>-11.8%</i>	<i>39.3%</i>	<i>38.3%</i>	<i>24.6%</i>	<i>17.0%</i>
Transportation and wholesale operation	356.8	425.5	459.4	491.5	536.3	585.0	575.7
<i>Growth</i>	<i>25.2%</i>	<i>19.3%</i>	<i>8.0%</i>	<i>7.0%</i>	<i>9.1%</i>	<i>9.1%</i>	<i>-1.6%</i>
Information, communication	132.4	157.6	169.5	180.3	189.7	202.4	219.0
<i>Growth</i>	<i>24.2%</i>	<i>19.0%</i>	<i>7.5%</i>	<i>6.4%</i>	<i>5.2%</i>	<i>6.7%</i>	<i>8.2%</i>
Financial and insurance service	130.0	169.6	143.1	143.6	198.8	277.0	353.5
<i>Growth</i>	<i>19.5%</i>	<i>30.4%</i>	<i>-15.6%</i>	<i>0.3%</i>	<i>38.5%</i>	<i>39.4%</i>	<i>27.6%</i>
Real estate service	166.5	180.3	195.5	195.9	204.9	220.5	231.3
<i>Growth</i>	<i>-0.3%</i>	<i>8.3%</i>	<i>8.4%</i>	<i>0.2%</i>	<i>4.6%</i>	<i>7.6%</i>	<i>4.9%</i>
Other service sectors	312.0	351.4	366.9	371.5	401.2	451.0	481.8
<i>Growth</i>	<i>4.4%</i>	<i>12.6%</i>	<i>4.4%</i>	<i>1.2%</i>	<i>8.0%</i>	<i>12.4%</i>	<i>6.8%</i>
Net product tax	409.5	480.2	394.0	569.9	900.2	902.7	921.8
<i>Growth</i>	<i>6.8%</i>	<i>17.2%</i>	<i>-18.0%</i>	<i>44.7%</i>	<i>57.9%</i>	<i>0.3%</i>	<i>2.1%</i>

Source: NSO

From the last year, because of "Price of main goods and services stabilization program", continued project financing by Chinggis bond, stable monetary and loan indicators, increased growth of agricultural products and export commencing of Oyu Tolgoi mine positively affected economic indicators in the 2nd half.

Chart 8. GDP real growth, by sectors



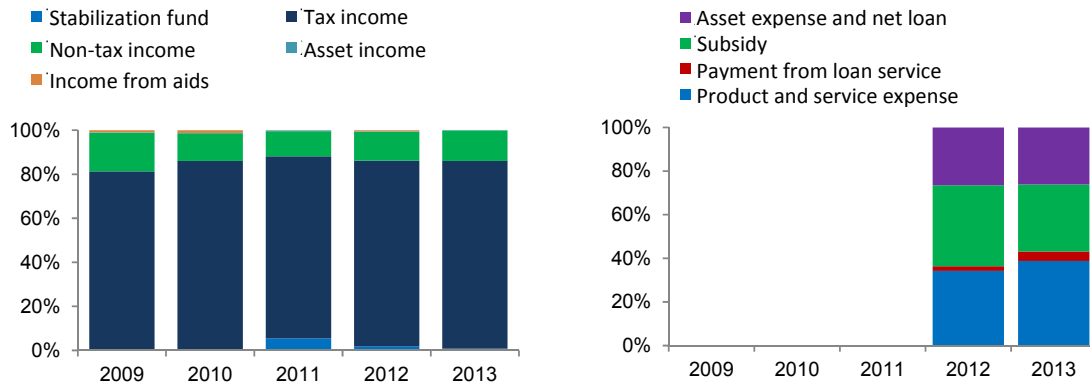
Source: NSO

Economic indicators

State budget

Amount of total budget income and aid reached 5,927.5 billion MNT which is 19.5% or 969.8 billion MNT higher than this period of the previous year. Of which, tax income accounts 85.3%, non-tax income accounts 13.9% and remaining 0.8% is accounted by asset income and stabilization fund.

Chart 9. Amount of total budget income and aid



Source: NSO

Amount of total budget expense and net loan value increased by 155.2 billion MNT compared to the same period of the last year to reach 4,559.3 billion MNT. Of which, 38.7% accounts goods and service expense, 30.68% accounts subsidy and transaction and 4.38% accounts loan service payment.

Investment

In 2013, in total of 6,285 million MNT worth of investment was made which is 3,110.2 million MNT lower than the previous year. Foreign direct investment accounts 55.7% of the total investment.

Chart 10. Investment by sectors

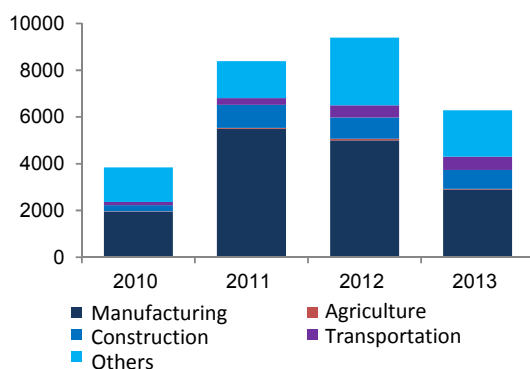


Table 15. Investment by sectors

Investment, by sectors	2010	2011	2012	2013
Manufacturing	1936.9	5494.6	5005.2	2893.4
Agriculture	23.3	38	64.6	31.8
Construction	262.8	990.7	913.8	807.4
Transportation	136.7	280.1	510.5	570.2
Others	1486.1	1584.4	2901.7	1982.8

Source:

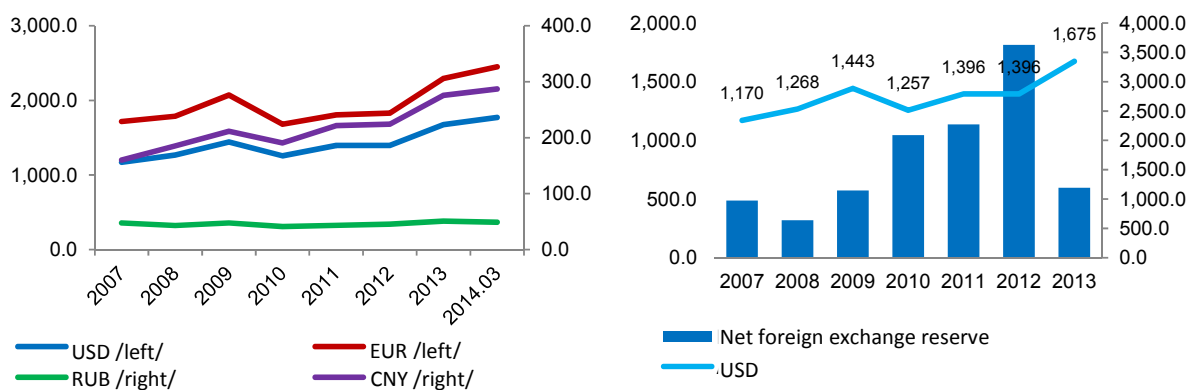
NSO

Manufacturing sector accounts 46%, construction sector 13%, transportation sector 9%, and agricultural sector 1% of the total investment. Other sectors account the remaining 32%.

Foreign exchange reserve, currency fluctuation

In 2013, local currency depreciated 19.9% against USD and 23.08% against RMB, which are the main currencies of foreign trade and investment.

Chart 11. Exchange rate fluctuation and foreign exchange reserve

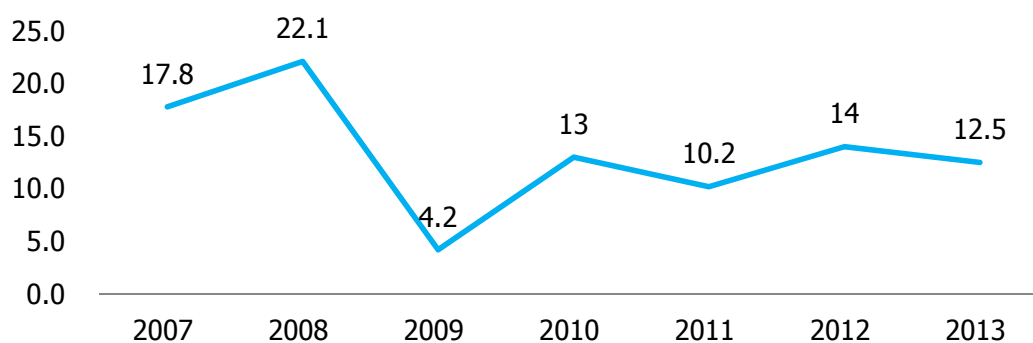


Source: NSO, Bank of Mongolia

Inflation

Inflation rate of 2013 was 12.5%. Price indexes of education, clothes and cotton, household utensils, hotel and restaurant increased, whilst that of water, electricity, fuel, transportation and postal service decreased. Foreign currency appreciation was the main factor of increased price indexes.

Chart 12. Rate of inflation



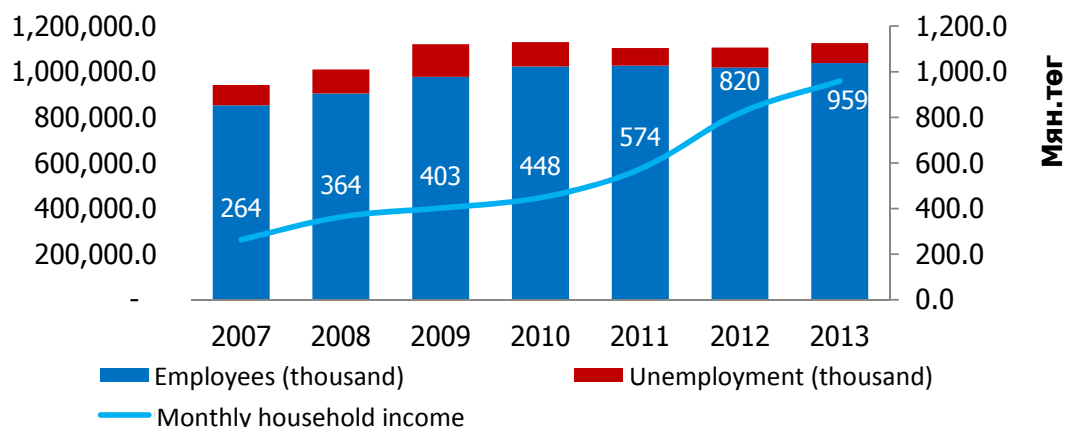
Source: NSO

Breakdown of a rate of inflation in Ulaanbaatar city is as follows: 9.3% is meat, 13.8% is other food products, 15.4% is stated-controlled product and services, 1.4% is fuel and the remaining 61.1% accounts other product and services.

Household income

Household income of Mongolia has been increasing year over year and it increased by 17% in 2013 to reach a monthly amount of 959.0 MNT. There are in total of 1,125.4 thousand working-age citizens in Mongolia.

Chart 13. Household income and number of employees



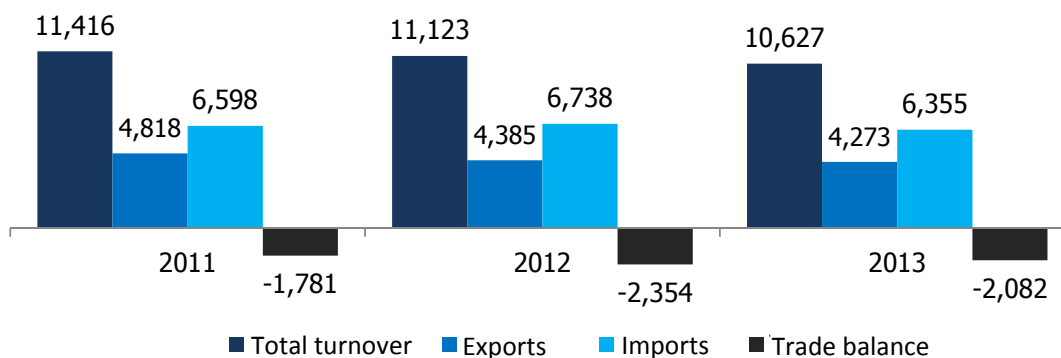
Source: NSO

Number of registered unemployed citizens reached 42.8 thousand as of December 2013 which increased by 7.0 thousand or 19.6% compared to the last year.

Foreign trade, commodity market

In 2013, Mongolia traded with 135 countries of the world and foreign trade turnover reached 10,627.4 million USD of which 4,272.7 million USD accounts exports and 6,354.7 million USD accounts imports.

Chart 14. Total foreign trade turnover, million USD



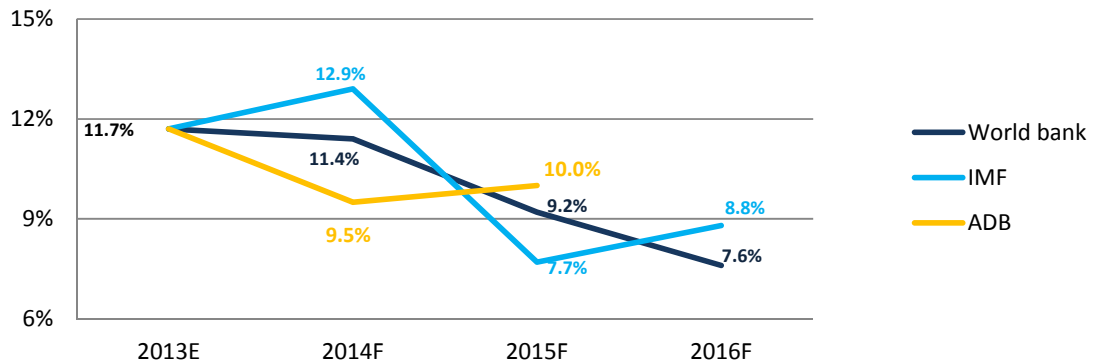
Source: NSO

Compared to the last year, total foreign trade turnover reduced by 495.7 million USD or 4.5%, exports went down by 112.0 million USD or 2.6% and imports declined 383.7 million USD or 5.7% in 2013.

Minerals, knitwear, jewels, metals, accessory, coins, raw and semi-manufactured skin, animal skin and its derivatives account 96.5% of the total exports amount.

Economic prospect

Chart 15. Mongolian GDP growth, by percentage



Source: World Bank, IMF, ADB

The above chart illustrates Mongolian GDP growth prospect estimated by international financial organizations. As inferred by the chart, Mongolian economic growth is expected to be stable in foreseeable future.

BUSINESS PLAN

In order to finance working capital, "BDSec" JSC is raising capital by issuing 6,000,000 (six million) additional common shares on Mongolian Stock Exchange.

We obtained our first special permission of an underwriting from Financial Regulatory Commission in 2006. And since that time, the company has been conducting its underwriting service for the 8th year. Within this period, we worked as an underwriter for 11 IPOs and 4 FPO deals in the capital market on which we made Stand by commitment by buying unsold shares from the market. As per other deals, we have successfully offered the deals to the public and raised capital based on Best Effort commitment.

We think in the coming 3 years, it is necessary to introduce new financial products that attract investors' interest and promote a supply of securities which would increase our company's profitability and bring positive effects to the local capital market and the country's economic situation.

Changes and improvements of the capital market

Even though it has already been 23 years since the establishment of Mongolian capital market, there are very few types of financial products in the market. In the past, in total of 18 initial public offerings (IPO), 4 follow-up public offerings (FPO) and 5 corporate bonds were introduced to the market, yet these deals still couldn't satisfy the market demand. Lack of financial products in the market results low market liquidity and limits investors' participation.

The main reason of lack of financial products is a high requirement to issue shares as well as the fact that a listing procedure takes huge amount of work.

In order to solve problems of the capital market and renew legal environment, the "Securities Market Law" was amended by the Parliament in 2013 with certain changes which resulted regulations of sector participants and trading organizations to be adapted.

Very small percentage of foreign direct investment into Mongolia comes through capital market due to the above mentioned reasons. Thus, by amending the laws and regulations, security issuers would have more flexible options to raise capital through capital market. Along with the improvements brought by an amended "Securities Market Law", local companies regardless of their business scales are enabled to raise capital through variety forms of financing. And at the same time, capital raising procedures have become simple and unambiguous.

One of the improvements of an amended law is double listing regulation. In the framework of this regulation, foreign listed Mongolian assets are enabled to be listed on Mongolian Stock Exchange and domestically listed large-scale companies now can be listed abroad, on foreign stock exchange.

Compared to the financial market, the capital market can be competitive to raise capital in significantly short period of time. Market regulators have been more flexible on the regulation,

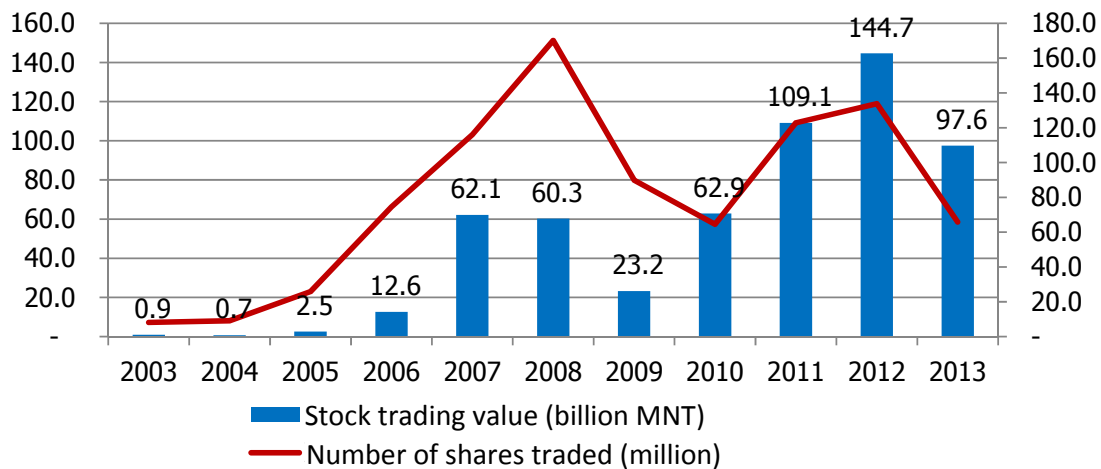
which enables companies to raise capital in relatively short period of time through Mongolian Stock Exchange.

Considering these, it can be said that the process to raise capital has been much simplified and clear for the Issuers which would further enable market development.

Underwriting service contribution of BDSec JSC to the capital market

As of December 31st, 2013, BDSec JSC traded 97.6 billion MNT worth of 65.8 million shares of 134 companies through 254 trading sessions and 1.0 billion MNT worth of 10.0 thousand government bonds. The company traded in total of 98.6 billion MNT worth of securities on the stock exchange.

Chart 16. Amount of equity trading, volume

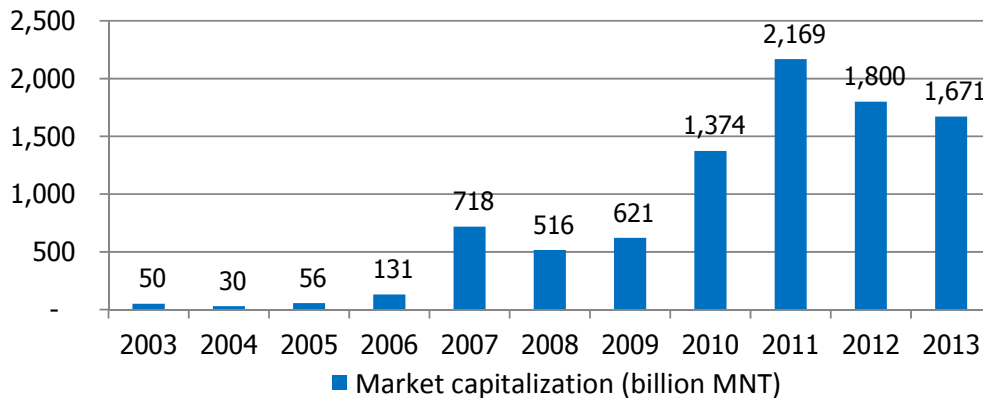


Source: MSE

Total trading volume reduced by 47.1 billion MNT or 32.57 percent in 2013 compared to the previous year.

Equity financing stated in an underwriting operation plan will be traded through securities trading on Mongolian stock exchange. By doing this, total equity trading volume in the coming 3 years can increase by 418 billion MNT.

Chart 17. Total market capitalization



Source: MSE

Total market capitalization of Mongolian stock exchange was 1,671 billion MNT as of 2013 which is 7.1% lower compared to the previous year. In the framework of our underwriting operation plan, we planned to raise in total of 418 billion MNT worth of capital in the coming 3 years, which would be 25 to 30% of the total companies' value we are working as an underwriter. By raising this capital, total market capitalization of listed companies can be increased by 1,394 billion MNT.

Research on competitors

As of today, there are 28 companies which took underwriting operation licenses from Financial Regulatory Commission. Of which, 18% of these companies worked as an underwriter on IPO deals and remaining companies haven't introduced any IPO deals yet.

Table 16. Companies with underwriting licenses

No.	Ticker	Companies with underwriting licenses	Introduced IPO deals	Follow-up Public Offering (FPO)
1	APS	Asia Pacific Securities		
2	ARD	Ard Capital Group		
3	ACE	Ace and T Capital	Zoos Bank Hotel Mongolia JSC BDSec JSC Genco Tour Bureau JSC HBOil JSC, TSWR JSC	HBOil JSC
4	BDSC	BDSec JSC	Khukh Gan JSC Naco Fuel JSC Silikat JSC E-Trans Logistics JSC, Moninjbar JSC Sharyn Gol JSC	Naco Fuel JSC Naco Fuel JSC HBOil JSC
5	BLMB			

6	GAUL	Gauli	Remicon JSC
7	ECM	Euroasia Capital Holding	
8	CAPM	Capital Market Corporation	
9	LFTI	Lifetime Investment	
10	MNET	Monet Capital	
11	MSEC	Monsec	
12	NSEC	National Securities	
13	PREV	Prevalent	
14	PESC	Rescap Securities	
15	STIN	Standard Investment	Merex JSC
16	TDB	TDB Capital	
17	TUIN	Tuushin Invest	
18	TNGR	Tenger Capital	
19	FRON	Frontier	
20	MIBG	MIBG	
21	MICC	MICC	Monfresh JSC
22	MJIH	MJIH	
23	SGC	SGCapital	
24	FCX	FCX	
25	USEC	United Securities	
26	BZIN	Daewoo Securities LLC	
27	ITR	I trade LLC	
28	GLMT	Golomt Bank LLC	

Source: MSE, BDSec JSC

Information of stocks issued

Since the development of Mongolian capital market, businesses as well as the government have been raising necessary amount of capital through the capital market by issuing debt and equity instruments.

Table 17. Amount of capital raised

Type of securities	Year of issuance	Number of issuances	Amount of capital raised /billion.MNT/	Percentage
Equity /IPO, FPO/	2005	18	93.01	16.9
Corporate bond	2001	11	17.61	3.2
Government bond	1996	1	440.56	79.9
			551.18	100%

Source: MSE, BDFSec JSC

Equity financing

Table 18. Capital raised through equities

Equity type	Year of issuance	Number of issuances	Amount of total capital raised /billion/MNT/	Percentage
Initial Public Offering /IPO/	2005	18	83.93	89.8
Follow-up Public Offering /FPO/	2008	4	9.08	10.2
			93.01	100%

Source: MSE, BDFSec JSC

Initial public offerings (IPO) have been introduced to the capital market of Mongolia since 2005 and starting from 2008, listed companies started issuing follow-up public offerings. Throughout this period, in total of 18 companies issued shares of which 17 became successful except for 1 deal of Monfresh LLC.

Those successful 17 companies issued in total of 305.3 million shares and raised 83.9 billion MNT worth of capital through Mongolian Stock Exchange.

Whilst, 4 companies raised capital through convertible loan and private offering and issued in total of 8.1 million additional shares and raised 9.1 billion MNT worth of capital.

Companies issued IPO on the stock exchange

Table 19. IPO issuances

No.	IPO issuances	Number of shares issued	Issue price	Amount of capital raised /billion MNT/	Year of an issue
1	Hotel Mongolia JSC	10,000,000	800	0.80	2005
2	Genco Tour Bureau JSC	100,000,000	100	8.26	2006
3	Zoos Bank JSC	14,666,703	100	2.02	2006
4	BDSec JSC	10,000,000	100	0.75	2006
5	Moninjbar JSC	15,869,233	100	1.00	2006
6	HBOil JSC	5,000,000	100	0.40	2007
7	Olooo JSC	9,700,497	100	0.58	2007
8	TSWR	120,000,000	1,000	13.20	2007
9	Khukh Gan JSC	101,317,557	100	3.19	2008
10	Naco Fuel JSC	11,000,000	100	0.74	2008
11	Mon Fresh JSC	148,320,348	100	-	2008
12	Remicon JSC	98,992,602	100	5.05	2008
13	Hermes JSC	78,543,001	100	2.36	2008
14	Anod Bank JSC	39,418,531	1,080	20.11	2008
15	Silikat JSC	16,222,300	225	3.65	2011
16	Sharyn Gol JSC	1,707,404	11,117	18.30	2011
17	E-Trans Logistics JSC	7,700,000	120	0.92	2012
18	Merex JSC	26,000,000	100	2.6	2014
Total		305,303,052		83.93	

Source: BDBSec JSC, MSE

Companies issued FPO on the stock exchange

Table 20. FPO issuances

No.	Companies	Number of additional shares	Issue price	Amount of capital raised /bil.MNT/	Year
1	BDBSec JSC	1,000,000	3,000	2.63	2008
2	HBOil JSC	4,234,268	300/174	0.73	2008/2010
3	Naco Fuel JSC	1,615,721	229	0.27	2010
4	Sharyn Gol JSC	1,292,596	4221	5.45	2011
Total		8,142,585		9.1	

Source: BDBSec JSC, MSE

Companies issued bonds on the stock exchange

In total of 13 bond issuances took place on Mongolian Stock Exchange since 2001, in total of 1.64 million bonds were traded to raise 17.61 billion MNT worth of capital.

Table 21. Companies issued bonds on the stock exchange

N o.	Companies	Number of bonds traded	Face value	Amount of capital raised /billion MNT/	Year
1	"Construction Corporation" JSC	533,568	10,000	5.34	2001
2	"Golden City Corporation" LLC	99,692	10,000	0.99	2002
3	"Niislel Urgoo" JSC	240,000	5,000	1.20	2002
4	"Ikh Barilga Project" LLC	26,000	50,000	1.30	2003
5	"MCS Electronics" LLC	7,272	120,000	0.87	2004
6	"MCS Electronics" LLC	5,000	100 USD*	0.61	2004
7	"Anodbank" LLC	20,949	10,000	0.21	2004
8	"Gobi" JSC	100,000	10,000	1.00	2005
9	"Moninjbar" JSC	50,000	10,000	0.50	2005
10	"Puma Group" LLC	50,000	10,000	0.50	2007
11	"Mon Fresh" LLC	15,692	10 USD*	0.18	2007
12	"Moninjbar" JSC	50,200	10,000	0.50	2008
13	"Just Agro" LLC	439,954	10,000	4.39	2011
		1,638,327		17.61	

Source: BDSec JSC, MSE

INFORMATION ON OPERATIONS TO BE FINANCED BY ADDITIONAL SHARE ISSUANCE

Use of proceeds

According to the company's mid term plan, the company is raising new capital through additional share issuance in accordance with a resolution #3 of Annual shareholders' meeting as of April 18th, 2014 and a resolution #6 of Board of Directors as of May 15th, 2014. The proceeds from an additional 6,000,000 shares will be used in accordance with the company's mid term plan.

Preemptive rights will be exercised first on additional 6,000,000 shares and remaining unsold shares will be offered to the public on the primary market.

Preemptive offer price is set at 1,931 MNT /one thousand nine hundred thirty one tugrigns/, a 10% discounted price from the market price of 2,146 MNT. The price of the remaining shares to be offered to the public will be decided by fixed price method. An offering price to the public will be set by Board of Directors. The price, which will be based on the market price, shall not be lower than the preemptive offer price.

Amount of capital raising through additional share issuance is shown below.

Table 22. Amount of capital to raise

OFFER PRICE:	
Price of preemptive rights:	1,931 MNT
Price of public offering:	To be decided by the Board based on market price
AMOUNT OF CAPITAL TO RAISE:	
Total amount at rights offering price:	11,586,000,000 MNT
Total amount at market price:	12,876,000,000 MNT

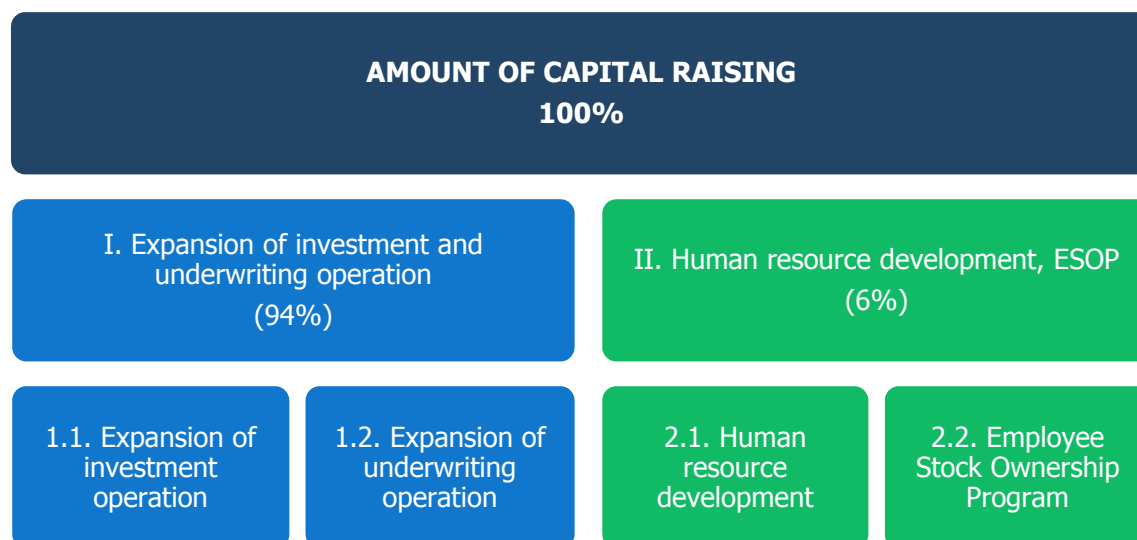
Most of the capital raised through an additional share issuance will be used for investment and underwriting operation, which would be 94% of the total capital raising. The remaining 6% will be used for human resource development and Employee Stock Ownership Plan (ESOP).

Use of proceeds is shown in below table.

Table 23. Use of proceeds (MNT)

	<i>Expenditure</i>	<i>Amount</i>		<i>Percentage</i>
		<i>At a price of preemptive rights</i>	<i>At market price</i>	
1	Expansion of investment and underwriting operation	10,890,840,000	12,103,440,000	94%
2	Human resource development and Employee Stock Ownership Plan (ESOP)	695,160,000	772,560,000	6%
	Total	11,586,000,000	12,876,000,000	100%

Chart 18. Use of proceeds



I. USE OF PROCEEDS: EXPANSION OF INVESTMENT AND UNDERWRITING OPERATION

The positive outlook of Mongolian economy and the capital market has become one of the factors to expand our investment and underwriting operation of the company

Mongolia GDP growth has been in double digits in recent years, it was 17.3% in 2011, 12.3% in 2012 and 11.7% in 2013. Of which, 5.1% accounts private enterprises and construction sector, 4.3% accounts service sector and 2% accounts agriculture.

In 2012, the government of Mongolia raised 1.5 billion USD worth of capital through an issuance of Chinggis bond on international market, which has been invested in large-scale railway, road, and electricity and power projects.

In the framework of implementing the objectives set to develop manufacturing sector between 2012 and 2016 by the government, the period has been announced to be the "new era of manufacturing". Supporting this objectives, the government announced to make an investment in mining, construction, agriculture and manufacturing to substitute imports and encourage exports.

In 2013, general plan to develop Ulaanbaatar city until 2020 and development direction until 2030 was approved by the parliament. In the framework of this plan, re-planning has taken place in some districts of Ulaanbaatar city and construction and road projects for provincial areas have started. In the framework of this plan, number of projects have been planned, such as thermal power stations, expansion of the current power stations, road, highway and metro construction, apartment projects in ger districts and satellite cities.

The government plans to have large scale railway, road and manufacturing facility projects implemented by joint ventures of state and private enterprises.

World scale projects such as Oyu Tolgoi and Tavan Tolgoi are being implemented in Mongolia and side businesses following these projects are developing.

Large scale infrastructure projects of railway, paved road, power stations, airport and manufacturing complex have planned to be implemented in the coming 5 years. These projects would cost in total of 30 to 50 million USD.

Developments of capital market legal environment have enabled new opportunities to the market and both local and foreign investors, security issuers have been paying attention to these developments. For example, Amended Securities market law, Company law, Investment law and Investment fund law can be mentioned.

Also Mongolia is the lowest tax rate country in the region with corporate tax rate of 2 scales - 10% and 25%.

In the framework of company's mid term business plan, 94% of the capital raised through an additional share issuance will be used for underwriting and investment operation expansion, which would be between 10.8 billion MNT and 12.1 billion MNT.

1.1. INVESTMENT AND PROPRIETARY TRADING EXPANSION

The following directions will be pursued for investment and proprietary trading expansion. In which:

DIRECTION-1: Invest in shares of publicly traded companies,

DIRECTION-2: Invest in construction, mining, finance and manufacturing sector companies through private investment,

DIRECTION OF INVESTMENT AND PROPRIETARY TRADING EXPANSION-1:

Invest in shares of publicly traded companies

An average short term investment return of "BDSec" JSC between 2007 and 2013 /excluding 2009/ has been 25%. Negative return from dealer and proprietary trading in 2009 was due to economic and financial recession. Thus, an expected return from this operation in the coming 5 years would be not less than 20% based on current economic and capital market prospects.

As of May 1st, 2014, there are in total of 181 companies are listed on Mongolian Stock Exchange of which 19.9% is Board A companies and remaining 80.1% is Board B companies.

Listed companies in terms of sectors are shown below as of 2013:

Table 24. Publicly listed companies, by sector

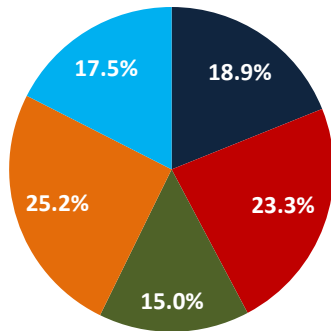
Sectors	Publicly listed companies, by sector		Total	Percentage
	Board A	Board B		
Mining /A/	8	31	39	18.9%
Manufacturing /B/	14	34	48	23.3%
Agriculture /C/	0	31	31	15.0%
Construction, transportation /D/	5	47	52	25.2%
Trading and service /E/	8	28	36	17.5%
Total	35	171	206	100%

Source: MSE

As of May 7th, 2014, total market capitalization of all publicly listed companies on the stock exchange was 1,528.5 billion MNT. Number of mining companies accounts 18.9% of the all publicly listed companies, yet the total market capitalization of these mining companies account 42.5% of the total market capitalization. In terms of market capitalization, manufacturing companies account 34.1%, trading and service companies account 17.1% and construction and transportation service companies account 5.4%. As per an agricultural sector, number of agricultural companies accounts only 15%, however in terms of market capitalizations, the sector accounts only 1.0% of the total.

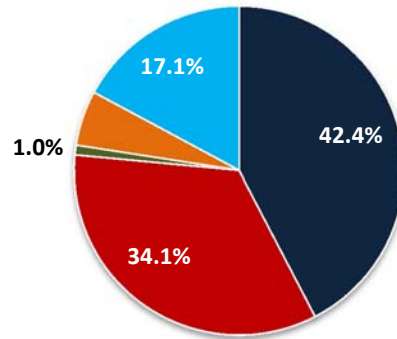
Chart 19. List of publicly traded companies, by sector

Listed companies on MSE, by sector



■ Mining
■ Agriculture
■ Trading and service

Market capitalization of listed companies on MSE, by sector



■ Mining
■ Manufacturing
■ Construction; transportation
■ Agriculture
■ Trading and service

Source: MSE, BDFSec JSC

Using the proceeds, the Issuer plans to specifically invest in construction and mining sector of the country and invest in companies operating in this sectors.

DIRECTION OF INVESTMENT AND PROPRIETARY TRADING EXPANSION-2:
Make an investment through private placement

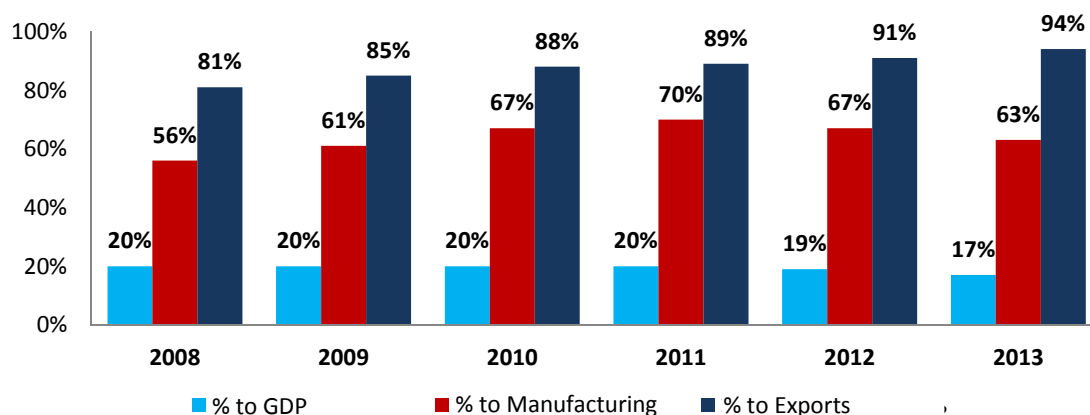
The Issuer plans to make an investment in companies operating in rapidly growing sector of Mongolia, specifically mining, construction, finance and manufacturing sectors.

a) Mining sector

Mining sector has been one of the main sectors of Mongolia and accounts 16.8% of the country's GDP. In 2013, mining sector grew by 1,031.2 billion MNT which is 20.7% higher than the previous year.

In the last 3 years, mining sector on average accounts 18.7% of total GDP, 66.7% of total manufacturing products and 91.3% of total exports.

Chart 20. Mining sector percentage in Mongolian economy

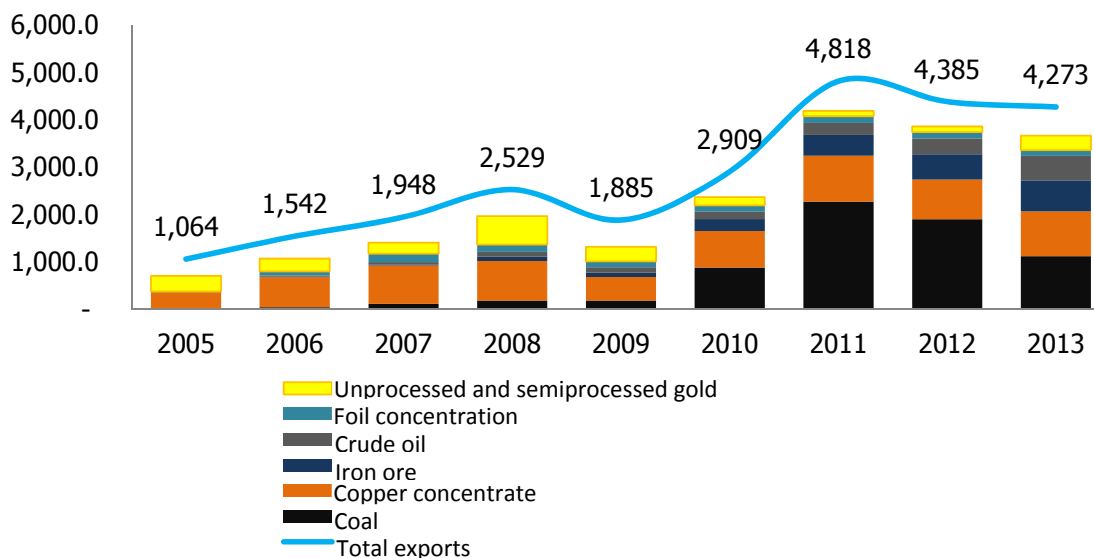


Source: NSO

Mineral resources account most of the export products of Mongolia. In 2013, the country exported in total of 4,273 million USD worth of products, of which mineral resources accounted 94% of it.

Percentage of mineral resources export reduced by 2.2 percent to reach 94% compared to the previous year. Non-manufactured raw materials: coal, copper concentrate, iron ore and concentrate and crude oil account 82% of total minerals export or 74% of total exports.

Chart 21. Main export products, million USD



Source NSO

In 2013, total export value reduced by 111.9 million USD which was due to export price drops at the border, mainly prices of coal concentrate, coal and other main export products.

Statistics of Mongolian export products:

Total foreign trade turnover as of April 2013 reached 2,953 million USD of which exports accounts 1,212.5 million USD and imports account 1,740.8 million USD. Foreign trade balance had a loss of 528.3 million USD as of April 2013, which is 269 million USD or 33.7 percent lower than the previous year.

Total trade turnover decreased by 410.6 million USD or 12.2%, imports by 339.8 million USD or 16.3% and exports by 70.8 million USD or 5.5% compared to the previous year. Mineral products, gem stones, precious metals, jewels and coins accounted 97% of total exports.

Table 25. Main export products (thousand USD)

Products	2009	2010	2011	2012	2013	March 2014
Coal	184,666	882,007	2,273,006	1,901,774	1,122,034	206,460
Coal concentrate	501,846	770,594	968,551	838,780	948,951	349,162
Iron ore	88,770	253,825	441,515	532,509	654,333	81,405
Crude oil	115,633	154,386	253,024	336,053	515,456	157,611
Foil	122,494	134,135	143,188	130,830	119,085	14,601
Unprocessed or semi-processed gold	308,473	178,339	109,778	122,294	309,827	89,843

Source: NSO

The first phase - open pit mining of Oyu Tolgoi project fully started in 2013 and necessary financing of the underground mining development is currently in discussion. As estimated by International Finance Cooperation, when Oyu Tolgoi project is fully implemented, it would account one third of the total GDP of Mongolia. Besides, if other strategic mines such as Tavan Tolgoi get operational, mining sector will have much greater effect on Mongolian social and economic Condition.

b) Construction sector

Building and construction projects reached 1,452.2 billion MNT in 2013, of which local construction companies account 91.3 percent or 1,326.3 billion MNT and foreign construction companies account the remaining 8.7 percent of 125.9 billion MNT.

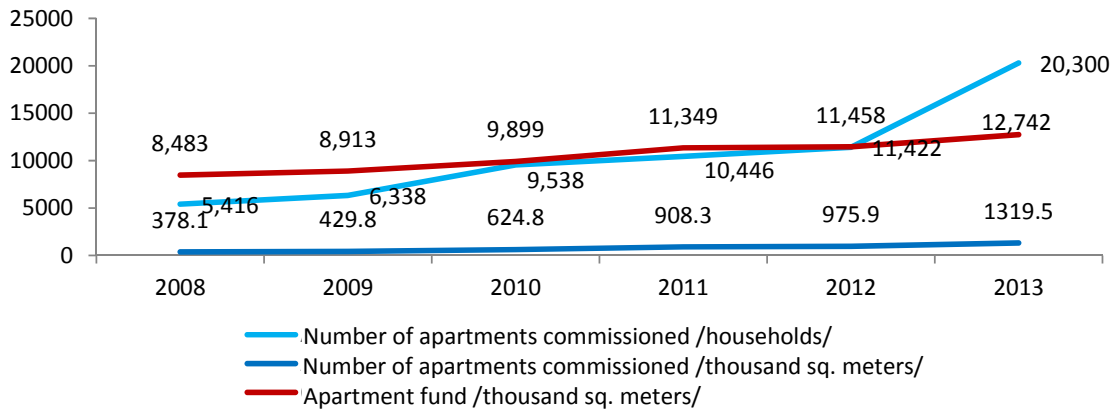
Table 26. Building and construction projects, billion MNT

Executor	2011	2012	2013	YOY change
Total building and construction projects	745.0	811.3	1,452.2	179%
Executed by local construction companies	657.2	748.1	1,326.3	177.30%
Executed by foreign construction companies	87.8	63.2	125.9	199.20%

Source: NSO

Amount of total building and construction projects increased by 640.9 billion MNT or 79.0 percent of which projects executed by local construction companies account 578.2 billion MNT or 77.3 percent.

Chart 22. Number of apartments commissioned



Source: NSO

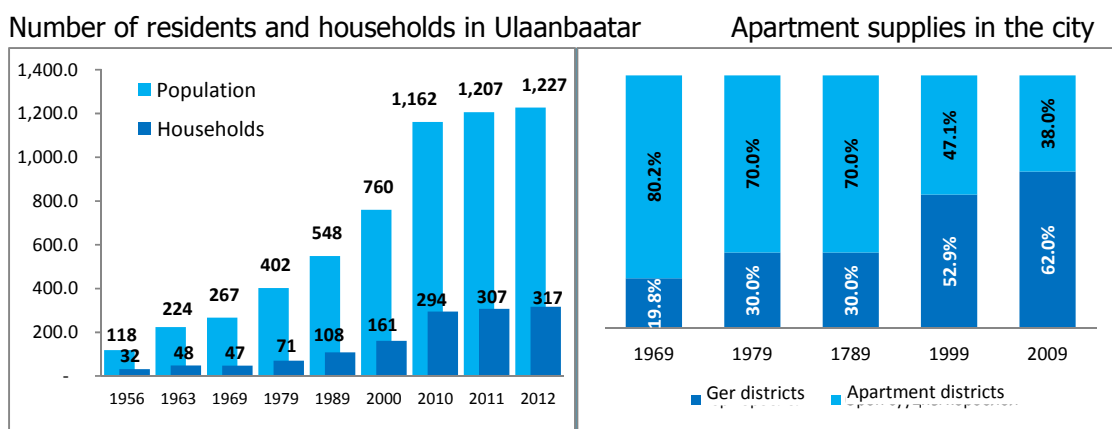
Total amount of loan of commercial banks to construction companies increased by 2 times compared to the previous year to reach 550 billion MNT in 2013. As a result of this, construction companies executed in total of 216 projects and commissioned 20,300 household apartments in 2013.

It hasn't been long since the development of real estate market in Mongolia, whilst the real estate market has been having constant growth over the years. The rapid economic growth of Mongolia stimulates demand of apartments which results ever increasing demand of real estates in the country. As of an end of 2012, statistics show that 45% of total population or 1,287,100 people live in Ulaanbaatar city, a capital of Mongolia.

Since 1990, when the country transitioned from centrally planned economy to market economy, migration to Ulaanbaatar city has been increasing year over year and population concentration has increased a lot. 51.1% of the total residents in Ulaanbaatar have migrated from rural areas. According to the statistics, 78 people per day come in to the city as permanent residents, whilst only 23 people per day go outside the city to rural areas permanently. As of an end of 2012, 122.7 thousand households or 40% of the total population live in apartments whilst 184.1 thousand households or 60% live in ger districts. As the migration into the city expands, both ger district and the city expands in all directions. Growth of ger district is estimated at 6% per year. Over concentration in the capital becomes the main problem source of city image and social problems.

The below figure shows the relationship between city residents and apartment supplies between 1969 and 2009.

Chart 23. Apartment supplies in the city



Source: NSO, General development plan of Ulaanbaatar city of 2030

Construction sector outlook:

Program of "Construction sector promotion and apartment price stabilization" started being implemented from January 2013 in cooperation between Bank of Mongolia and Ministry of Construction and Urban Development. The purpose of this program is to enable interrelation of construction sector supply and demand and stabilize construction material price. The program will be implemented for 3 years and total amount of financing is 800.0 billion MNT.

"General development plan of Ulaanbaatar city until 2020, development direction of 2030" agenda was approved by the Parliament. In the framework of this plan, ger districts are under re-planning stage. As the first phase, apartments will be built in 7 regions and executors have been chosen through tender offers. Thus the supply of apartments is expected to up significantly.

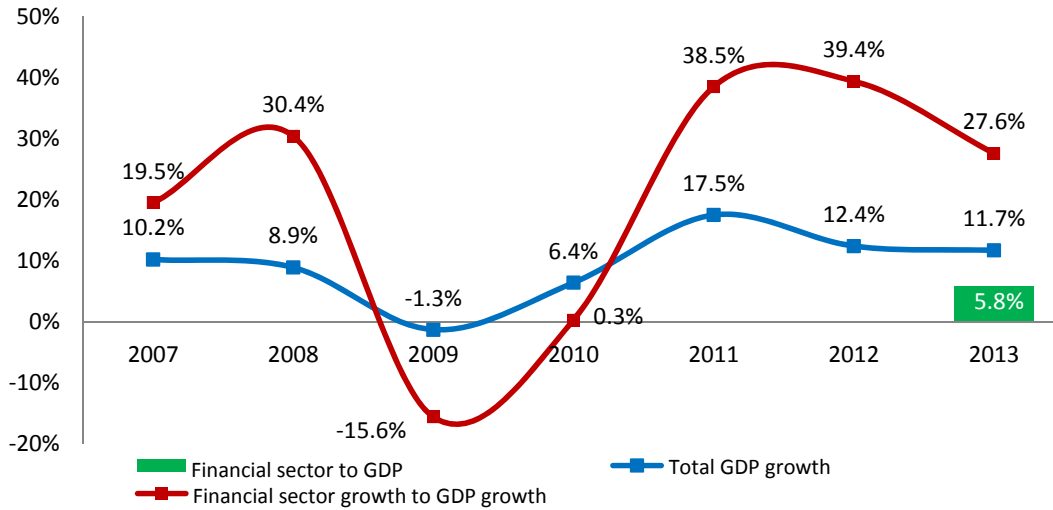
Besides, on April 13th, 2013, the Prime Minister and the President of Bank of Mongolia signed the Memorandum of Understanding to create stable financing system in order to encourage the demand side. Mortgage rate became in a range of 7% and 9 % and 50 square meters limitation was changed to 80 square meters of limitation.

In the framework of improving construction sector infrastructure, construction of "Power station number 5 in Ulaanbaatar" is currently in process. As mentioned above, large scale development projects are to be carried out in construction sector of Mongolia, which implies increased demand of financing in this sector.

c) Financial sector

Financial sector is one of the contributors to the country's economic growth. Financial sector accounted approximately 4% of the total GDP of Mongolia between 2007 and 2012 and 5% in 2013.

Chart 24. GDP growth and financial sector growth, by year

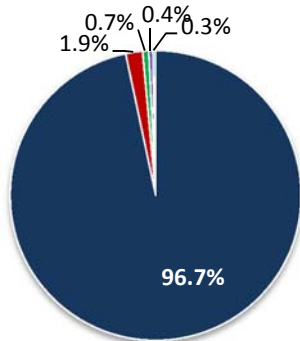


Source: Committee report of Bank of Mongolia

Breakdown of financial sector into its 4 main groups: Bank, Non-banking and finance institution, Insurance and Capital market (Brokerage and dealer operation).

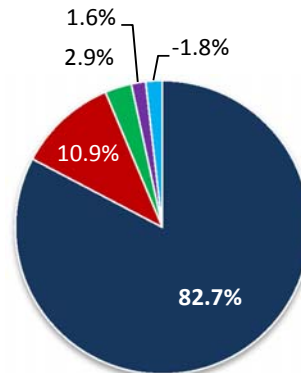
Chart 25. Size of financial sector, as of June 30rd, 2013

Amount of actives of financial sector



Banking NBFI Insurance
CM Brokerage

Amount of profit of financial sector



Banking NBFI Insurance
CM Brokerage

Source: Bank of Mongolia, FRC, MSE

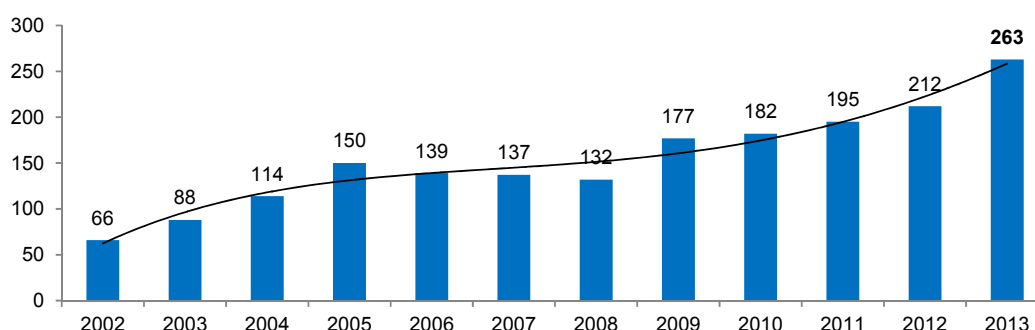
The above graph shows that 96.8% of financial sector actives is concentrated in banks, which is the main sole player of the sector. Banking sector accounts 82.7 percent of total profit of the financial sector.

Whilst, non-banking and finance institutions, which account only 1.9% of the total actives of the sector, gets 10.9% of total profit of the sector. Thus, an investment to and cooperation with NBFIs can have high investment returns. Information of non-banking and finance market is provided below.

Non-banking and finance sector

Number of companies took special licenses of non-banking and finance institutions from FRC increased in recent years. As of an end of 2013, in total of 263 entities have taken NBFIs licenses. Of which, 19 are foreign invested, 31 operate in provincial areas and 41 have only foreign exchange permissions.

Chart 26. Number of Non-banking and finance institutions, by year



Source: FRC

As of 2013, 83% of NBFIs run loan service, 39.5% operates foreign exchange service, 8.0% conducts investment and financial advisory service, 4.9% runs factoring service, 3.4% runs payment guarantee service and 8.0% conducts trusts services.

Table 27. NBFIs comparisons, in thousand MNT

Main indicators	2012	2013	Changes
Total actives	252,053,541.4	381,130,752.7	51.2%
Percentage compared to banking sector	2.1%	1.8%	-0.3%
Total outstanding loan	157,769,345.8	223,711,713.9	41.8%
Percentage	2.2%	2.1%	-0.2%
Amount of total equity	171,296,659.6	234,337,952.6	36.8%
Percentage	17.4%	17.7%	0.3%
Amount of total equity fund	139,194,226.2	183,691,627.8	32.0%
Percentage	45.4%	50.6%	5.2%

Source: Annual report of FRC

Total amount of actives of NBFIs increased by 51.2% in 2013 and equity fund accounts 48.2% of the total actives which implies that NBFIs finance most of their operations through its equity fund.

In 2013, 61.5% of the total assets of NBFIs accounted shareholders' capital and long term debt, whilst remaining 38.5% accounted short term capital. Total accumulated profit of NBFIs increased by 72.5% in 2013 which resulted an increase in shareholders' equity by 36.8%, implying profitability rates of NBFIs are relatively high.

Table 28. Profit breakdown of NBFIs, by sectors

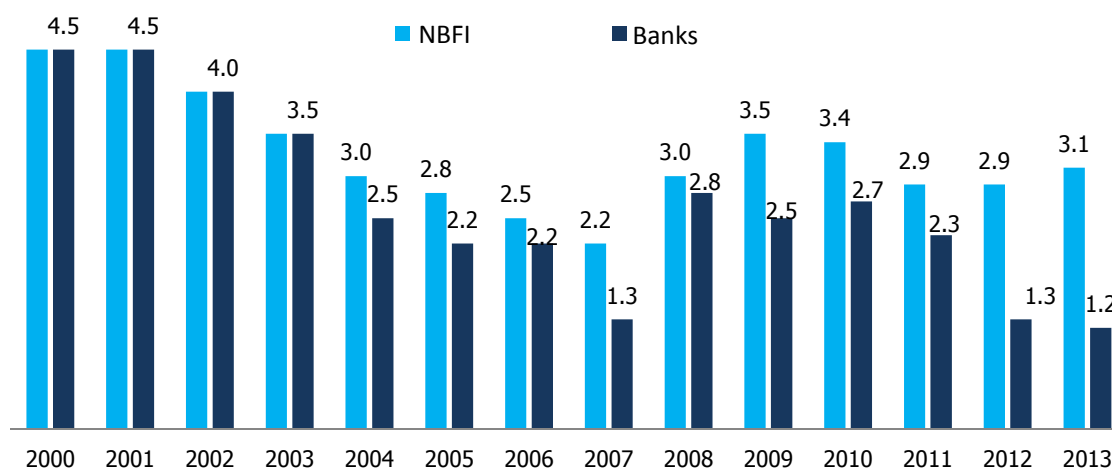
Indicators /thousand MNT/	2012		2013		Change (%)
	Amount	%	Amount	%	
Interest income	45,674,079	65%	66,088,468	62%	45%
Non-interest income	23,344,791	33%	39,317,032	37%	68%
Sub-operational income	1,149,375	2%	1,088,443	1%	-5%
Income from non-operations	314.866	0%	158.143	0%	-50%
Total income	70,483,111	100%	106,652,086	100%	51%

Source: FRC

Operational income of NBFIs increased by 51% in 2013 compared to the previous period, of which 62% of the income is interest income and remaining 37% is from non-interest income.

As per an interest income, which is the main revenue source for NBFIs, a monthly interest rate ranges from 9.0% the highest to 0.5% the lowest and an average of 3.13% in 2013. Below is the comparison of interest rates between NBFIs and Banking sector.

Chart 27: Average loan interest rate of NBFIs /monthly/



Source: FRC

Table 29. Sector profitability of NBFIs, in thousand MNT

Indicators	2012	2013	Changes
Total income	70,483,110.80	106,652,086	51%
Total expense	51,903,731.80	76,817,417	48%
Net profit	18,579,379.00	29,834,669	61%

Source: FRC

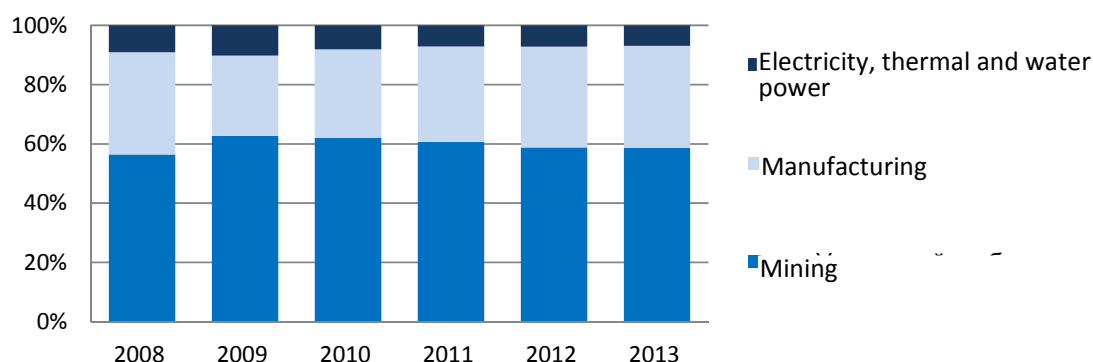
In 2013, net profit of the sector increased by 61% compared to the previous period and net profit to sales ratio was 28%.

In recent years, amount of total loan granted by non-banking and finance institutions to companies and individuals has been growing up by 36% on average of 5 years. An increase in loans outstanding driven by demands implies an interest rate on loan to be maintained and a profitability rate of the sector is expected to increase.

d) Manufacturing sector

In 2013, manufacturing sector had total production output of 7.3 trillion MNT which is 28.4% higher than the previous year. This growth is mainly driven by increased production of mining and manufacturing products, such as copper concentrate, foil, iron ore and crude oil, which has an annual growth of 0.1 to 42.6 percent.

Chart 28. Manufacturing sector breakdown



Source: NSO

Table 30. Main mining and exploitation products

Products	Unit	2008	2009	2010	2011	2012	2013*	2014*
Electricity and power	million kilowatt per hour	4,001	4,039	4,313	4,536	4,816	5,038	5,304
Coal	thousand tons	10,072	14,442	25,246	32,030	29,926	27,625	33,704

Petroleum	thousand barrels	1,174	1,870	2,181	2,549	3,636	4,600	5,800.0
Coal concentrate	thousand tons	525	533	522	514	518	797	1,111
Gold	kg	15,184	9,803	6,037	5,703	5,995	12,780	27,155
Iron ore	thousand tons	1,387	1,379	3,203	5,678	7,561	5,930	6,532
Foil	thousand tons	144	142	113	105	119	115	117

Source: Ministry of Economic Development

Table 31. Manufacturing products, by sectors, nominal price, million MNT

Manufacturing sectors	2011	2012	2013	Of which, foreign
Manufacturing, total	5,626,746.2	6,058,023.8	6,456,583.2	3,780,559.1
Processing products	1,566,825.2	1,949,749.9	2,106,308.3	729,574.9
Food and drinks	664,855.20	719,877.80	815,274.70	
Tobacco	41,611.60	45,211.70	66,445.90	-
Knitwear products	179,933.20	175,078.80	228,674.00	128,657.10
Clothing, fur and leather processing	15,614.80	20,604.60	33,601.50	5,384.90
Skin and leather processing, leather shoes	2,451.50	8,565.10	8,409.30	4,001.00
Wooden products	11,500.90	15,660.50	13,998.40	-
Paper products	11,772.90	14,935.00	13,243.40	-

Source: Ministry of Industry and Agriculture

The plan to support manufacturing sector development:

Within a framework of a development plan from 2012 to 2016 approved by the government, the objectives of light manufacturing industry between 2013 and 2016 are defined as follows:
In which:

- In total of 9.8 thousand employees work for cashmere sector with an annual production output of 250 billion tugrigs, which was planned to increase to 20 thousand employees with an annual production output of 1 trillion tugrigs by 2016.
- Wool preparation, which is the main raw material of carpet production, is 70%. As of 2012, in total of 3 thousand employees work in this sector with an annual production output of 50 billion tugrigs. In 2016, it is planned to increase the number of employees to 8 thousand and an annual production output to 250 billion tugrigs.

- Currently, in total of 3,500 employees work for skin and leather sector. In a planned year, it is planned to increase the number of employees to 20,000 and an annual production output by 4.4 times or 965.3 billion tugrigs.
- In forestry and wood sector, it is planned to increase current number of employees from 5,000 to 7,000 and an annual production output from 105.5 billion tugrigs to 148.9 billion tugrigs by 2016.

Table 32 Development plan and objectives of light industry between 2013 and 2016

	Indicators	2012	Objectives of 2016
1	Cashmere sector		
	Cashmere production	30%	100%
	Spinning thread production	1238 tons	4000 tons
	Knitwear products	232 thousand meters	2.5 million meters
	Woven products	1.2 million units	3.8 million units
2	Wool sector		
	Wool preparation	70%	100%
	Carpet preparation	0.9 mill square meters	1.2 mill square meters
	Wool cotton production	0	2.5 million meters
	Construction insulation material	20.0 thousand square meters	520 thousand square meters
3	Skin and leather sector		
	Raw material preparation	25%	100%
	Semi-manufactured skin	112 billion MNT	99.7 billion MNT
	Fully manufactured skin	38.0 billion MNT	238.6 billion MNT
	End products	77.0 billion MNT	627 billion MNT
4	Wood and forestry sector production		
	Wood furniture	22.1 billion MNT	31.3 billion MNT
	Construction wood fabrics	11.6 billion MNT	17.8 billion MNT
	Wood for heating	40.1 billion MNT	23.8 billion MNT
	Briquette	1.1 billion MNT	14.9 billion MNT
	Chip board	0	23.8 billion MNT

Source: Ministry of Industry and Agriculture

As mentioned above, the Government is pursuing a policy to develop light industry of Mongolia until 2016 through private-public partnership (PPP) and to substitute imports and promote exports. The government policy has created lots of expectations in the market.

Thus by cooperating with producers and companies in a manufacturing sector, investors can get high yield on their investments through value-added manufacturing companies.

1.2. EXPANDING UNDERWRITING OPERATION:

The following two main directions will be pursued in the framework of expanding underwriting operation.

DIRECTION-1: Support new project submission procedure,

DIRECTION-2: Participate to the primary market trading through firm commitment and stand by commitment in order to successfully implement the project.

DIRECTION OF AN UNDERWRITING OPERATION-1:

Support new project submissions

In the framework of our special permissions of Underwriting and Investment advisory services, every year "BDSec JSC" accepts number of projects looking for a financing and cooperate with them through our advisory service. For example, between 2010 and 2013, we accepted in total of 139 projects and gave advice and information on raising capital from which we worked as an underwriter on certain projects and raised necessary capital between 2013 and 2014.

In the mid-term, we plan to provide our underwriting service to over 10 large scale projects and raise capital for them through the capital market.

Information on Mongolian enterprises:

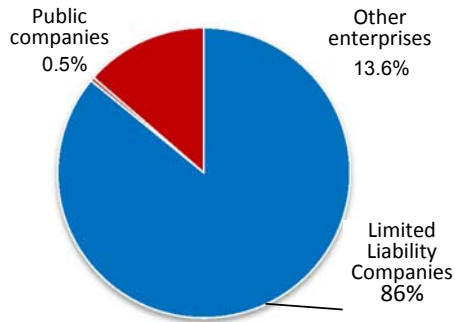
According to the statistics of "List of entities that paid corporate income tax" compiled by General Department of Taxation, there were in total of 19,296 enterprises that paid corporate income tax in 2001, whilst the number of enterprises went up 4 times to 78,741 in 2012.

As stated in "Compiled financial statements of all enterprises paying tax throughout the country between 2007 and 2012", published by Accounting Department of Ministry of Finance in 2012, the following is the breakdown of types of enterprises: Limited liability company (LLC) accounts 86.0% of all enterprises and Joint Stock Companies only account 0.5%.

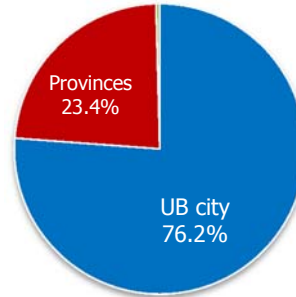
As shown in the statistics of General Department of Taxation, 76.2% of the all enterprises are registered in Ulaanbaatar city and remaining 23.4% is registered in provincial regions, as of 2012.

Chart 29. Classifications of enterprises

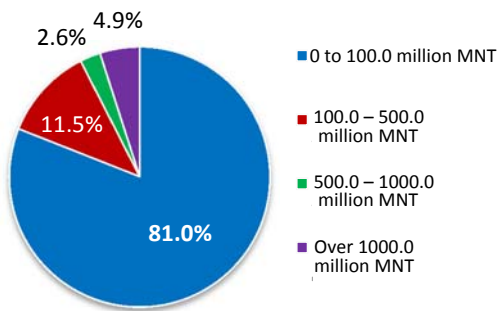
Enterprises, by types, 2012



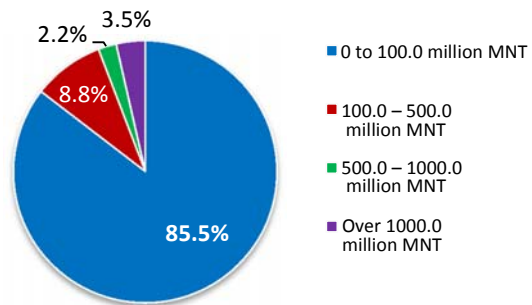
Enterprises, by locations, 2012



Enterprises, by total assets, 2012



Enterprises, by sales revenue, 2012



Source: General Department of Taxation

Enterprises are classified in terms of their total assets as follows: 81.0% has up to 100 million MNT of capital, 11.5% is in a range of 100.0 to 500.0 million MNT, 2.6% has 500.0 to 1,000.0 million MNT of capital and remaining 4.9% has over 1,000 million MNT worth of capital.

In terms of sales revenue, 85.5% of total enterprises has up to 100.0 million MNT of sales revenue, 8.8% has in a range of 100.0 to 500.0 million MNT, 2.2% has 500.0 to 1,000.0 million MNT and remaining 3.5% has over 1,000 million MNT of sales revenue. Please refer to the above graph for detailed information.

As of 2010, even though number of enterprises reporting over 1 billion MNT of sales revenue has been decreasing, number of enterprises reporting less than 1 billion MNT went up 5.2 times from 262 in 2001 to 1,364 in 2010.

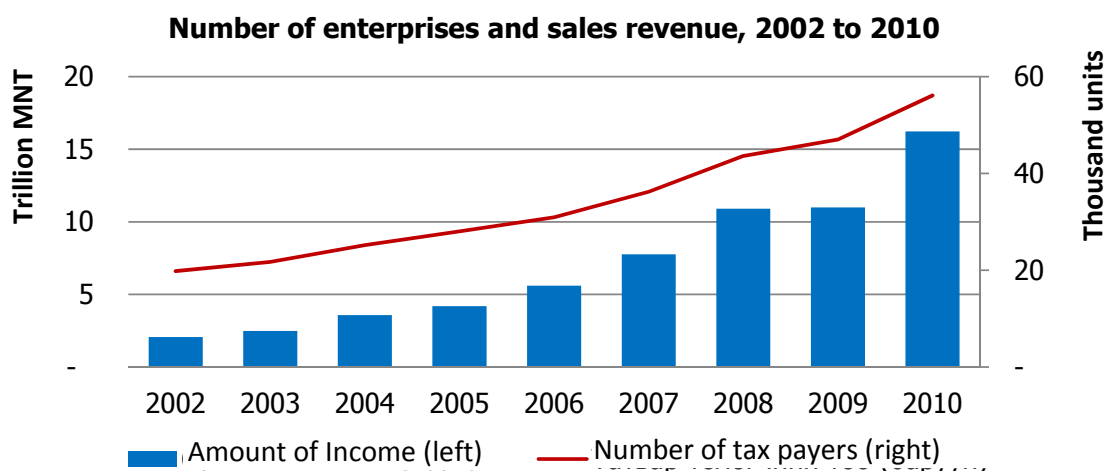
Table 33. Enterprises in terms of sales revenue (MNT)

Sales revenue (mil MNT)	2002	2003	2004	2005	2006	2007	2008	2009	2010
Up to 1	8082	8349	10326	11464	12807	15712	20444	22443	28647
1 to 2	1350	1507	1575	1679	1669	1684	1611	1762	1844
2 to 3	985	1082	1144	1288	1387	1386	1310	1498	1449
3 to 5	1325	1507	1719	1893	1986	2118	2172	2405	2354
5 to 10	2539	3254	3825	4456	4981	5467	5981	6180	6652
10 to 15	974	1085	1070	1192	1277	1377	1522	1567	1750
15 to 20	673	658	742	763	828	929	1039	1087	1192
20 to 50	1519	1717	1774	1948	2194	2740	3073	3422	3861
50 to 100	797	812	1007	1095	1203	1477	2000	2062	2520
0.1 to 1000	1327	1425	1622	1813	2073	2611	3483	3555	4483
1 to 2000	120	145	179	191	237	307	436	449	609
2 to 3000	34	59	65	63	83	112	130	139	195
over 3000	108	123	150	174	222	288	405	413	560
	19833	21723	25198	28019	30947	36208	43606	46982	56116

Source: General Department of Taxation

In the below graph, number of enterprises and their sales revenue has been shown. From 2002, both numbers have been increasing. Amount of total sales revenue of enterprises was 2 trillion MNT in 2002 and increased 7.8 times to 16.2 trillion MNT in 2010, in 8 years.

Chart 30. Number of registered enterprises and amount of sales revenue



Source: General Department of Taxation

According to the statistics of enterprises in Mongolia, significant part of total enterprises can be qualified to be listed on the stock exchange, which is implied to be a big market for our Underwriting operation.

DIRECTION OF AN UNDERWRITING OPERATION - 2:

Buy certain proportion of the deal from the primary market in order to successfully implement the project

Based on our years of experience in the capital market and experience of our underwriting operation, we think that "BDSec JSC" participating to the project through firm commitment¹ and standby commitment² would be one of the main factors to successfully raise necessary amount of capital and introduce an IPO to the market.

In 2008, when the company worked as an underwriter for the IPO of "Khukh Gan" JSC, BDBSec JSC purchased all the remaining shares after selling to the primary market, which became the first case of standby commitment in Mongolia. We have also underwrote more than half of the IPOs introduced to the capital market and raised necessary financing. Shares of these companies now trade actively on the market.

Advantages of raising capital through Firm commitment¹, Standby commitment²:

As the capital market development is weak and an investor base is not enough, most of the companies raise financing through bank loan, not through securities.

By introducing firm commitment and standby commitment to underwriting companies, companies and entities would be more interested to raise capital from the capital market which would result increasing number of companies issuing their securities and enable high yield, profitable projects to be introduced to the market. Which would further encourage local capital market development and would become the lever to bring the market to the next step.

In the last years, there have been number of cases of unsuccessful capital raising and IPOs as underwriting investment companies don't commit their capital to issuances and work based on their best efforts. Thus, in case underwriting investment companies wholly or partially buy the securities from the primary market, it will be one of the factors of successful capital raising.

¹A type of agreement to purchase all securities directly from the issuer for sale to the public on the secondary market

²A type of agreement that an underwriting investment bank agrees to purchase whatever shares remain after it has sold all the shares it can to the public.

II. USE OF PROCEEDS: IMPLEMENT EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

HUMAN RESOURCE IMPROVEMENT:

We plan to improve our human resource skillfulness capability through professional and training programs using the proceeds from our additional shares.

In the framework of this plan:

- Train company's management and department managers through local and international management and development trainings and seminars,
- Train other specialists and human capital through training programs,
- Other expenses of human resource

EMPLOYEE STOCK OWNERSHIP PLAN:

It has been decided to grant certain percentage of the additional shares to management, department managers and other main specialists of BDSec JSC.

Upon implementing employee stock ownership plan (ESOP), it would encourage company's specialists and employees to work for the company with high efficiency and for a stable period of time. By implementing this project, company's profitability would increase and human resource capability and efficiency, which is the company's main resource, would increase and employees would develop personally and professionally through this program.

From the additional issuance, in total of 564,050,000 MNT worth of stock was planned to be owned by company's management, department managers and specialists between 2011 and 2016.

Income projection

Sales projection of underwriting service

"BDSec" JSC had total amount of capital raising through both public and private deals in the coming 3 years depending on Mongolian economic and capital market condition approved by the Board of Directors meeting. In 2014, it was planned to raise in total of 90.6 billion MNT worth of capital of which 60% is through equity and 40% is through debt instruments.

Table 34. Sales projection of an Underwriting service (million MNT)

	2014	2015	2016	Total
Equity underwriting	52.0	80.6	136.7	
IPO Investment	5.0	39.2	47.0	91.2
Pre-IPO	12.0	15.0	18.0	45.0
Mid sized IPO, FPO	22.0	26.4	31.7	80.1
BDS Follow-up Public Offering	13.0			13.0
International IPO			40.0	40.0
Debt underwriting	38.6	43.6	59.8	
In real estate sector	33.6	33.6	44.8	112.0
In financial sector	5.0	10.0	15.0	30.0
Total	90.6	124.2	196.5	

This projects are based on current projects in pipeline of an Investment Department of "BDSec" JSC.

Upon successfully implementing these projects, sales projection of the Underwriting service is shown below:

Table 35. Sales revenue from the Underwriting service

	2014*	2015*	2016*
Unit: MNT			
Through equity			
IPO Investment	150,000,000	1,175,048,991	1,410,058,789
Pre-IPO	480,000,000	600,000,000	720,000,000
Mid sized IPO, FPO	660,000,000	792,000,000	950,400,000
International IPO	-	-	1,000,000,000
Total	1,290,000,000	2,567,048,991	4,080,458,789
Debt instrument			
In real estate sector	840,000,000	840,000,000	1,120,000,000
In financial sector	125,000,000	250,000,000	375,000,000
Total	965,000,000	1,090,000,000	1,495,000,000
Total income	2,255,000,000	3,657,048,991	5,575,458,789

Sales revenue from Brokerage

Sales revenue from Brokerage is projected based on current market trading, new product financing and a brokerage service on that financing.

Table 36. Amount of equity trading on MSE in the last 5 years

Unit: MNT

	On 1 side	On 2 sides	Changes in trading volume	5 year average
2009	23,181,478,462	46,362,956,924	-62%	
2010	62,873,141,553	125,746,283,106	171%	
2011	109,110,768,611	218,221,537,222	74%	
2012	144,746,456,537	289,492,913,074	33%	
2013	97,586,865,645	195,173,731,290	-33%	36.7%

Source: MSE, BDBSec JSC

Trading volume of 2014 is based on 2013 and that of 2015 and 2016 is based on an average increase of the last 5 years. Trading volume market share of the Issuer is based on its average of previous years.

Table 37. Sales projection of the Brokerage

Unit: MNT

	2014*	2015*	2016*
Market projection			
Amount of total market trading (on 2 sides)	195,173,731,290	266,706,474,867	364,456,544,770
Market share projection	56%	56%	56%
Trading volume amount of BDBSec JSC	109,037,057,881	149,000,017,292	203,609,723,011
New financial products	40,000,000,000	65,568,299,700	78,681,959,640
Primary market trading - 50%	20,000,000,000	32,784,149,850	39,340,979,820
Secondary market trading - 10%	4,000,000,000	6,556,829,970	7,868,195,964
Sales projection			
Sales revenue from secondary market trading	2,260,741,158	3,111,136,945	4,229,558,380
Sales revenue from primary market trading	200,000,000	327,841,499	393,409,798
Sales revenue from Brokerage	2,460,741,158	3,438,978,444	4,622,968,178

Source: MSE, BDBSec JSC

Sales revenue of proprietary trading

Company's sales revenue from the proprietary trading through an investment of public and private financing is shown in this section.

As per company's proprietary trading, the company placed 83% of the total current capital as an investment in the last 5 years of which 34% on average is traded per year. Cost of goods sold accounts 76% of the total sales from the proprietary trading and remaining 24% accounts profit. Thus, our projection is based on an assumption to maintain this percentage.

94% of total capital raised through additional shares will be accounted as a working capital and will be spent on investment operation. 30% of the total capital raising through additional shares in 2014 can be used for investment banking purpose and the remaining capital will be kept in commercial banks earning interest, which will be registered as an interest income from sub-operation.

Table 38. Sales projection of proprietary trading

Unit: billion MNT

	2012	2013	2014	2015	2016
Investment income	1.58	0.94	2.94	5.16	5.31
Current Asset	5.99	6.24	17.83	18.37	18.92
Equity financing			11.59		
Investment	4.42	4.13	8.63	15.17	15.63
Investment / Working capital	73.84%	66%	83%		
Sales revenue / Investment	35.64%	23%	34%		

Consolidated income statement

Table 39. Consolidated sales revenue projection

Unit: million MNT

Indicators	2014*	2015*	2016*
Sales revenue	7,959.44	12,600.00	15,899.99
Underwriting	2,255.00	3,657.05	5,575.46
Brokerage	2,460.74	3,438.98	4,622.97
Dealer (Proprietary trading)	2,935.32	5,157.61	5,312.33
Investment Advisory	142.98	164.43	189.09
Rental income	165.40	181.94	200.13
Amount of sales revenue	7,959.44	12,600.00	15,899.99
Cost of Goods Sold (COGS)	2,318.90	4,074.51	4,196.74
Gross profit /loss/	5,640.54	8,525.50	11,703.25
Amount of operational expense	3,317.34	4,395.90	5,764.83
Operational profit /loss/	2,323.20	4,129.60	5,938.42
Interest income	243.31	72.99	21.90
Sub-operational profit / loss	153.56	46.07	13.82

Profit before tax /loss/	2,476.76	4,175.67	5,952.24
Tax expense	247.68	593.92	1,038.06
Profit after tax /loss/	2,229.09	3,581.75	4,914.18
Total shares outstanding	17.00	17.00	17.00
Earnings per share /EPS/	131.12	210.69	289.07

RISK FACTORS AND RISK MANAGEMENT

INVESTORS SHOULD NOTE THAT BY REGISTERING THE ISSUE, THE FINANCIAL REGULATORY COMMISSION IS NOT GIVING A GUARANTEE FOR THE ISSUE. AN INVESTMENT IN EQUITY SHARES INVOLVES HIGH DEGREE OF RISK. INVESTORS SHOULD CAREFULLY CONSIDER ALL THE INFORMATION IN THE PROSPECTUS BEFORE MAKING AN INVESTMENT IN THE EQUITY SHARES.

Risks related to securities market

The history of the Mongolian securities market starts from 1991 with privatization of state-owned companies. The secondary market trading started in 1995. From 2000, the Mongolian government issued government bond and from 2001, companies started issuing corporate bonds and Initial Public Offering (IPO) started from 2005. Since 2005, total of 18 companies got approval from the FRC.

After some very successful IPOs through 2006-2008, investments shrank as investors started quitting in the third quarter of 2008 due to the global financial crisis. During that time, "Monfresh Juice" LLC's IPO failed.

The share prices may fall or the IPO could fail due to many variables, not all of which are directly related to the Company such as general economic and securities market conditions.

Legal risk

Due to legal environment changes in Mongolia, amount of foreign investment in the country reduces and trading activity on stock exchange reduces which might affect negatively to the Issuer's business profitability. Especial, mining companies account significant proportion of Mongolian capital market and political intervention into mining sector is relatively high, which might decrease investors' interest.

The Issuer's operation is regulated through "Securities market law", "Company law", "Entities' special permissions law", "Civil law", "Anti-Money Laundering and Counter-Terrorism Financing Act" and other relevant laws and regulations.

Securities market law, which is the main regulation of professional services in the capital market, was amended in May 24th, 2013 and became fully effective in January 1st, 2014. Due to an amended law, the company adapting its regulations and procedures.

Risks related to the Issuer's operation

"BDSec" JSC conducts brokerage, underwriting and investment advisory service in the capital market.

Risks related to brokerage operation

"BDSec" JSC has been executing most of the trading value on Mongolian Stock Exchange since 2004. Currently, the company has 22% of total local clients and 46% of total foreign clients as its customers and it has in total of 169 thousand customers.

Other risks related to an operation

Intentionally and unintentionally provide confidential information of clients and others, which might result customers to lose confidence;

Lose customers due to new and innovative financial products introduced by them. Upon losing customers, the company's market position will be weakened which would affect company's business and operational results negatively.

Due to rapid development phase of the capital market, the company doesn't catch up with technological and human resource innovations which would loosen company's position in the market.

The following actions will be taken in order to prevent or mitigate the risks:

- Specialists will be covered by liability insurance,
- Strictly comply with company's internal regulations and relevant laws, make confidentiality agreements with employees,
- Provide basic and professional training programs to specialists
- Improve due diligence
- Develop internal control

Risks related to the company's executive management and controlling share owners

The company's executive management can manage company's day to day activities in the framework of company's charter and an agreement with the Board. In accordance with the Company law and Company's charter, an executive management can make a decision, an agreement and a contract in an amount equal to 25 percent of the previous quarter's total asset.

As for matters beyond the power of an executive directors, the matters shall be presented to the Board and Shareholders' meeting in accordance with the Company law and Company's charter. According to the company's law, controlling share owners can cast a vote equal to the percentage ownership.

Currently, there is no a single shareholder owning more than 33.3% of the company, a controlling stake. As of March 3rd, 2014, below is the list of shareholders owning more than 5%.

Table 40. Shareholders owning more than 5% of the company

No.	Shareholder's name	Number of shares owning	Percentage owning
1	Alexander Zwahr	3,080,500	28%
2	Firebird GM 2 S.A.R.L	1,054,301	9.58%
3	Firebird MF holding 2 S.A.R.L	576,276	5.24%
4	Dayanbilguun.B	2,704,251	24.58%

Source: Detailed securities registration

In accordance with the Company law, the Annual Shareholders' Meeting is held accordingly in which Board of Directors are elected. There are 3 independent members have been appointed as board members. In accordance with a relevant resolution, the Board shall hold its meeting quarterly. The BOD shall make decisions on matters proposed by the Executive director and if necessary, an Extraordinary Shareholders' Meeting shall be held.

Company's financial position and insolvency risk

The Issuer fully complies with all professional requirements and qualifications, which are fully in effect, set by FRC. The issuer established a risk fund which is not less than 3% of the equity capital.

Table 41. Criteria of proper ratios, as of December 31st, 2013

Indicators	Requirements currently in effect	As per BDBSec JSC		Whether meets the criteria or not
		Brokerage and dealer operation	Underwriting operation	
Amount of share capital	Brokerage and dealer operation - 50,000,000 MNT Underwriting operation - more than 200,000,000 MNT	Share capital of "BDBSec JSC" is 1.1 billion MNT		Qualified
Working capital percentage	Cash and cash equivalents account not less than 50% of the share capital Securities trading is not more than 20% of the current asset	The company has 6,244,515 thousands MNT of current asset		Qualified
			4,954,074 thousand MNT worth of working capital with high liquidity.	Qualified

Risk fund	Shall not be less than 3% of equity capital	33,000 thousand MNT is deposited		Qualified
Main operational indicators	Income	2,114,898.8 thousand MNT	206,832.5 thousand MNT	Qualified
	Expense	311,961 thousand MNT		
	Profit / Loss (Shall be profitable)	287,883 thousand MNT		

In order to increase qualifications and financial capability of capital market participants, Financial Regulatory Commission increased the requirements of special permissions which will become fully in effect starting from July 1st, 2015.

In accordance with the "Rule of special permits to conduct a regulated operation in the capital market", a resolution number 506 as of December 12, 2013 by FRC, an amount of share capital has been defined as follows:

- 1) Investment advisory service - 100.0 million MNT,
- 2) Brokerage service - 200.0 million MNT,
- 3) Dealer service - 300.0 million MNT,
- 4) Underwriting service - 1,000.0 million MNT

By increasing share capital through additional share issuance, "BDSec" JSC would be able to fully meet the requirements of special permits.

However, the special permits can be breached in case the company no longer meets the requirements or satisfy proper ratios on half and full year financials through consecutive financial periods. Thus, in order to avoid this risk, the company shall strictly comply with the criteria of proper financial ratios.

Risk management plan

Table 42. Risk management plan

No.	TYPE OF RISKS	RISK MANAGEMENT POLICY	MEASURES TO BE TAKEN
<p>Foreign factor risk: <i>As the company can't manage risks related to foreign factors, the company will pursue a policy to avoid and prevent these risks in the framework of risk management.</i></p>			
1	Risks related to market and sector the issuer operates in	<ul style="list-style-type: none"> - Use the proceeds as stated in the prospectus, 	Give the highest priority of investment into the sectors that are important and identified in this prospectus. In detail research has been conducted on the sectors.
		<ul style="list-style-type: none"> - Conduct detailed research on risks, 	When making an investment, the following shall be researched thoroughly: identify risks that might happen to the company, monitor investment estimation and expenditures, estimate how changes in product price, currency exchange fluctuation affects the company.
		<ul style="list-style-type: none"> - Comply with strict investment policy, 	When conducting an investment service, relevant laws and regulations approved by authorities as well as internal investment policy and regulations shall be strictly complied.
2	Risks related to the demand of securities	<ul style="list-style-type: none"> - Enable investors to exercise their "Rights offerings", 	Public announcement shall be made within a certain period stated in the law and shareholders who are eligible to exercise their rights offering shall be provided with sufficient information and necessary service in a timely, comfortable manner. Shareholders and investors shall be offered to exercise their rights offering at a reasonable price.

		<ul style="list-style-type: none"> - Schedule public announcement, 	<p>Make a plan on public announcement and provide information to local and foreign investors, arrange meetings and conferences in order to increase sales of the securities.</p>
		<ul style="list-style-type: none"> - Implement successful Road show to advertise the issue. 	<p>Besides the company's clients, make cooperation with other local brokerage and dealer companies in order to cover broader range of investors and provide enough information regarding the issue.</p> <p>Submit information and organize meetings regarding the issuer with large-scale, well-known international brokerage networks such as CLSA, investment funds and banks with which BDSec JSC cooperate.</p>
		<ul style="list-style-type: none"> - Make marketing and advertisement plan, give priority to public announcement, 	<p>In the framework of marketing and advertisement, cooperate with public media such as Bloomberg in order to provide sufficient information to the public regarding the issue.</p>
3	Legal risks	<ul style="list-style-type: none"> - Comply with laws and regulations, 	<p>Laws and resolutions to be approved by regulatory and authoritative bodies are out of control of the issuer. Thus, the Issuer adapts to new laws and resolutions by amending its internal regulations.</p>
4	Risks related to significant changes in product and services the Issuer interacts with.	<ul style="list-style-type: none"> - Pay special attention to product and services providing to customers, 	<p>Brokerage operation:</p> <p>In today's fast-phase environment of technology and programs, the company shall constantly invest in human resource and quality of the service the company provide. In which:</p> <ul style="list-style-type: none"> - Introduce electronic trading - Commence nominal account trading - Improve Back Office department

			<ul style="list-style-type: none"> - Increase number of active participants to the stock market through creating trading halls in provincial areas. <p><i>Underwriting operation:</i> Based on our experience, the company will focus on introducing new financial products to the market through both private and public placements. By raising capital through additional share issuance and supporting our underwriting operation, the company's financial capability will increase and enable the company to strengthen its market position.</p> <p><i>Investment advisory service:</i> Based on our experienced human resource and years of operational history, the company will expand its investment advisory service, prepare private companies to be listed and support its underwriting service through our advisory service on capital raising and corporate governance.</p>
		<ul style="list-style-type: none"> - Focus on creating BDSec Brand, 	<p>We plan to provide quality service and products to our customers through our brokerage network, market position and years of experience.</p> <p>By protecting the rights of shareholders and our customers, improving transparency of our company's operation, and implementing adequate corporate governance system, we will create "BDSec Brand".</p>

5	Other risks related to an operation	<ul style="list-style-type: none"> - Reduce risks related to human activities, 	<p>The following objectives will be pursued to train company's specialists:</p> <ul style="list-style-type: none"> - Specialists will be covered by professional liability insurance in order to reduce the risks of intentional and unintentional mistakes, - Will also focus on making professional ethics as a habit. - Require specialists to strictly comply with company's internal rules, relevant laws and regulations, and confidentiality agreement will be signed with each specialists.
		<ul style="list-style-type: none"> - Train specialists, increase their qualifications and skills, 	<ul style="list-style-type: none"> - Increase their working skills and provide necessary training for their tasks, - Provide accounting and valuation training for specialists of Investment Banking Department. - Improve and develop Due diligence procedures, - Increase internal monitoring and prepare additional human resources,
6	Risks related to special permits	<ul style="list-style-type: none"> - Fully comply with the requirements of special permits 	<p>Current share capital amount of the Issuer is 1,100.0 million tugrigns, thus by raising additional capital through share issuance, the company will raise the share capital amount to 1,700.0 million tugrigns, which is the minimum requirement.</p> <p>Prevent any activities and actions that might result the special permits to be breached in accordance with relevant laws and regulations.</p>
7	Risks related to the company's executive directors and major shareholders	<ul style="list-style-type: none"> - Introduce sound corporate governance, 	<p>The following actions will be taken in order to reduce this risk.</p> <ul style="list-style-type: none"> - Introduce guidelines stated in "Mongolian corporate governance code" to the company's corporate governance, - Introduce transparent information system, - Comply with relevant laws and resolutions, - Ensure the implementations of an internal control.

8	Company's financial position and insolvency risk	<ul style="list-style-type: none"> - Meet the requirements of proper financial ratios, - Standardize financial documents and reports 	<p>The Issuer fully complies with all professional requirements and qualifications, which are fully in effect, set by FRC.</p> <p>In order to increase qualifications and financial capability of capital market participants, Financial Regulatory Commission increased the requirements of special permissions which will become fully in effect starting from July 1st, 2015.</p> <p>Thus, in order to avoid these risks, the Issuer needs to fully comply with all the requirements and qualifications.</p>
9	Risks related to human resource and the company employees	<ul style="list-style-type: none"> - Give a support to specialists in order for them to solve their social hardships, 	<p>Encourage company's managers and main specialists to solve their social issues</p> <ul style="list-style-type: none"> - "Employees' apartments" - "Smart Phone" <p>and other programs will continue to be implemented.</p> <p>By doing this, employees and specialists would be encouraged to work for the company for long period of time with high productivity.</p>
		<ul style="list-style-type: none"> - Employee Stock Ownership Plan (ESOP), 	<p>By implementing Employee Stock Ownership Plan (ESOP), the employees by themselves will be shareholders of the company and be rewarded based on company's performance. As a result, their productivity and creativity will increase. We will further implement these programs which enable us to keep experienced and skilled employees for the long term.</p>

CORPORATE GOVERNANCE

The Issuer drafted and complies with 5 guidelines of corporate governance in accordance with the "Company's corporate governance code". The guidelines were approved by the Board on March 12th, 2012. These guidelines were presented to the shareholders at the Annual Shareholders' Meeting of 2012.

Information openness and transparency

The company complies with "Information distribution guideline", approved by the Board on March, 12th, 2013 when any information is distributed to investors and shareholders.

Information obligated to distribute to the public. In which: All the information that shall be distributed to the public in accordance with related laws and resolutions.

Information that can be distributed to the public. It has been stated to distribute information, which might be able to affect company's operation or share price, which was deemed to be appropriate to distribute to the public by the company's BOD or the Executive Director

Other information: Information regarding company's day-to-day operation and other public information

The information shall be distributed through authorities of the market and the company's website www.bdsec.mn at the same time. The Issuer has been operating its website since 2005 and news related to the sector and company's operation has been published on the website.

Company's internal control

In order to protect shareholders' and participants' rights, avoid operational breaches and take responsibility for the mistakes, the Issuer approved "Internal control regulation" on March 12, 2012.

In accordance with the regulation, internal control department monitors company's operation and the following:

- Monitor the operation of company's employees;
- Monitor the agreements made with cooperating individuals and organizations
- Conduct investigation based on requests and complaints

Monitor company's financial operation, security, employees and other aspects of the company

Board and Executive Director's operation

The company approved the "Operational regulation of Board of Directors" on the Board's meeting on March 12, 2012 in order to manage relations regarding to implement Board's full legal rights, define the company's strategic policy and set requirements and qualities of Board members and its independent members. The regulation was presented at the shareholders' meeting and the company complies with it.

The board also established Audit committee, Voting committee and Salary and Compensation committee on June 25th, 2012.

Audit committee under the BOD shall function in the following ways and the BOD shall be presented by the committee report. In which:

- Adjust company's accounting and registration policy to an international standard, verify correctness and fairness of an internal inspection, risk management, financial statements and other financial and economic information;
- Appoint a management of an internal inspection department, make a proposal to set salary and compensation amount;
- Assign auditing organization and make a proposal to set an auditing service fee
- Check and evaluate large and conflict of interest transactions
- Other matters deemed as necessary by the Board;

Company's voting committee shall have the following rights:

- Define the requirements of candidates for company's board members and executive director and set criteria to evaluate skill, knowledge, education and experience of the nominees;
- Evaluate skills, knowledge, education and work experience of candidates running for a board member and an executive director and verify whether an independent member is qualified with the requirements of Company Law;
- Register and select candidates for the Board and directly nominated at the shareholder's meeting;
- Evaluate Board members' and executive director's operation;
- Draft agreement terms and conditions to be signed with an executive director
- Evaluate an assessment by the management on authorities' performance except for Board members
- Reject a candidate from the Board member nomination in case the Board member candidate was forfeited his/her rights to work as a Board member for any company for 3 years due to not holding shareholder's meeting

Salary and Compensation committee shall function in the following ways and the BOD shall be presented by the committee report

- Approve salary and compensation policy of Board members, executive director and other authorities and monitor its implementations;

- Set the highest limit on salary and compensation of BOD, executive director and other authorities and make a proposal to provide salary and compensation within stated amount;
- Define the purpose of result driven bonus system currently in implementation and evaluate its result.

Company's shareholders' meeting

The company's BOD approved "Shareholders' Meeting Resolution" on March 12, 2012 to in order to direct relations regarding to hold annual and extraordinary shareholders' meetings, propose meeting agenda, participate to shareholders meeting and exercise voting rights.

The company will announce and hold an annual shareholders' meeting in accordance with the Company's Law to make decisions within shareholders' full rights.

DIVIDEND POLICY

Board of Directors of “BDSec” JSC approved a regulation of “Dividend policy” as of March 12, 2012 which manages relations regarding dividend distribution, dividend amount and other related matters for shareholders.

As stated in the regulation, the company shall expense investors’ asset at an adequate amount, maintain and increase an annual dividend amount to shareholders. Matters regarding the dividend distribution shall be approved by the Board of Directors, as stated in the resolution. In case the company decides not to distribute any dividend in a profit-making financial year, the decision shall be presented at an Annual Shareholders’ Meeting along with the reason, profit expenditure and estimations. In case it is decided to distribute dividend in a given year, dividend distribution report shall be presented at the next Annual Shareholder’s Meeting.

The issuer became a public company by offering its shares to the public in 2006. Since that time, the issuer has distributed dividend as follows.

Table 43. The issuer’s dividend distribution report

Period	2006	2007	2009	2010	2012	2013*
Dividend	3	30	5	50	60	11.78

Source: BDBSec JSC, MSE

2013 * - According to the BOD’s resolution of February 18th, 2014, the company decided to pay 11.78 MNT per share from 2013 profit.

SHAREHOLDERS' RIGHTS

The rights attached to Shares are regulated by the Company Law, the Securities Markets Law, the Company Charter and the draft of the joint stock company.

Shareholders who own Shares by record date are entitled to attend the Shareholders’ Meeting announced by eligible person/entity and have voting rights for the Shares held by him or her.

Any dividend as declared by the board is payable on all Shares in proportion to the amount of capital after the preferred shareholders are paid. If the dividend is not paid by the pay date, shareholders have rights to demand charges for overdue.

In the event of liquidation of the Company, shareholders have a right to benefit from sales of all remaining assets in proportion to the amounts of their shares after debts are paid pursuant to Article No. 28 of Company Law.

The shareholders have preemptive rights to purchase additional shares and securities convertible into shares, proposed to be issued by the company. This right shall be provided by the Board pursuant to Article No. 38 of the Company Law.

Any shareholder, who voted against the decisions made on a shareholders' meeting or did not participated in the voting for the following matters, has a right to demand redemption of his or her shares by the Company pursuant to a matter stated in the Company's charter.

In which:

- Merger, acquisition, division and restructuring to a private company
- A transaction, or series of related transactions, other than in the ordinary course of business, involving the sale, purchase, disposition (including a pledge) by a company of property or property rights, in which the market value of which exceeds twenty five percent (25%) of the total assets of the company as shown on the company's most recent balance sheet prior to the conclusion of such transaction; concerning major transactions that accounts for more than 25% of total common shares that are outstanding, right to buy common shares, and securities convertible into common shares.

If a shareholder, together with its affiliated persons, is to hold more than seventy-five percent (75%) of a company's common shares, any other common shares holders may demand the Company to redeem its shares. The Board shall determine the price of shares presented for redemption based on an independent valuation agency's estimation. The price can not be lower than the price estimated by the independent valuation agency.

A shareholder who owns more than five percent (5%) of the Company's common shares may introduce additional proposals to the agenda for the shareholders' meeting and may nominate candidates for election to the Board of Directors within 60 days after a financial year ends.

If a shareholder, together with its affiliated persons, acquires more than five percent (5%) of a company's common shares, the shareholder is obligated to notify the company of his/her ownership in written form within 30 days since the trading date. This notification will ensure the shareholder the right to make proposals to the agenda for the shareholders' meeting.

Documents indicated in the Provision No. 66.4 of the Article No. 66 and Provision No. 96.1 and No. 96.2 of the Article No. 96 shall be available to every shareholders. A shareholder who owns more than ten percent (10%) of the Company's common shares can have an auditing company examine financial and economic activities of the Company. The Company is not liable for the obligations of its shareholders. The shareholders shall not be liable for the obligations of the Company and shall only bear risk of loss to the extent of their shares.

Shareholders' property invested into the company and right to property are distinct from their private property and their right to property.

Tax, commission

Trading commission

Commission fee of the trading will be percentage amount an investor agreed with his/her brokerage, which is set at the first account opening date.

Tax on dividend

In an article #30.2 of "Personal income tax law of Mongolia", it states that "incomes stated in article number 13.1.3 and 13.1.4 shall be subject to income taxes starting from January 1st of 2013" and also stated that an article 13.1.3 is "dividend income" and 13.1.4 is "interest income".

Thus, individuals shall pay 10% tax on dividend income starting from January 1st, 2013.

In an article #16.3 of "Corporate income tax law in Mongolia", it is stated that "The sum of each taxable income shall be the amount of income to be taxed", an article 16.3.1 is "dividend income", an article 17.2 states that "The following incomes shall be taxed at an stated amount" and an article 17.2.1 states "an interest income".

Thus local corporates earning an interest income shall pay 10% tax in corporate income tax report.

In accordance with an article 17.2.9 of "Corporate income tax law in Mongolia" foreign registered entities operating in Mongolia shall pay 20% profit tax.

Double taxation agreement:

As of March, 2013, Mongolia signed "Double taxation avoidance agreement, and prevent tax avoidance agreement" with 28 countries.

For more information: General Tax Authority www.mta.mn

Currency exchange rate:

Trading on MSE will be conducted in tugrigs (MNT), the national currency of Mongolia. Currency exchange rate will be set as of that given date. Commercial banks set currency exchange rates daily for public reference. Websites to obtain exchange rates of the largest commercial banks in Mongolia

Golomt Bank: www.golomtbank.com

Khaan Bank: www.khanbank.com

State bank: www.statebank.mn

Trade and development bank: www.tdbm.mn

THE ISSUE

Table 44. Information on additional share issuance

Ticker:	522 /BDS/
Total outstanding shares:	11,000,000 shares
Type of shares:	Common
Nominal price:	100 MNT
Last 6-month weighted average price /prior to January 16th, 2014/	2,146 MNT
Number of additional shares:	6,000,000 shares /35.29%/
Purpose of the financing:	Working capital financing
Preemptive rights offerings:	Shareholders as of March 3rd, 2014 are entitled to exercise their preemptive rights.
Public offering:	Remaining shares from the preemptive rights offering will be offered to the public.
Rights offering price:	Rights offering price is 1,931 /one thousand nine hundred thirty one/ tugrigns per share.
Public offering price:	The remaining shares will be offered to the public through fixed price method. The offer price to the public will not be lower than 2,146 MNT per share.
	<i>Market price * - weighted average price of the last 6 months</i>

Regarding the decision of additional share issuance

Pursuant to articles 42 and 87 of the "Company Law" and relevant articles of the company's charter, it was decided to issue 6,000,000 additional shares in order to finance company's mid term plan in accordance with resolution #3 of Annual General Meeting on April 18th, 2014.

417 shareholders as of the registration date of March 3rd, 2014 were entitled to exercise preemptive rights from the additional shares.

Based on articles #39.4, 43 and 56 of the "Company Law", Board of Directors of "BDSec" JSC set the prices of preemptive rights and public offers for the additional shares to be issued in accordance with a meeting resolution of May 9th, 2014.

Number of additional shares to be issued

As stated in the company's mid term plan, in total of 6,000,000 shares will be issued in order to raise additional capital. Thus, the company's number of total shares post-issuance will be 17,000,000, of which 64.7% is the current outstanding shares and remaining 35.29% will be additional share issuance.

Securities offer price

As stated in articles 38.4 and 55.8 of "Company Law", the price of preemptive rights will be offered at 1,931 MNT per share - 10% discount from a weighted average price of the last 6 months prior to January 16th, 2014. Remaining shares from preemptive rights will be offered to the public at market price.

Time line of primary market placement

Market placement of the additional shares will be executed in accordance with Table 43. Securities trading and order submission methods, deadline, extension and shortening shall be decided in accordance with Financial Regulatory Commission, Mongolian Stock Exchange and Board of Directors.

PRIMARY MARKET PLACEMENT

Preemptive rights offering shall be executed on all 6,000,000 shares and remaining shares will be offered to the public.

Table 45. Market placement timeline

№	Action plan	Date	July				August				September			
			1st week	2nd week	3rd week	4th week	1st week	2nd week	3rd week	4th week	1st week	2nd week	3rd week	4th week
1	Financial Regulatory Commission approval	7-Jul												
2	Rights offering starts	10-Jul												
3	Rights offering closes	26-Aug												
4	Public offering starts	27-Aug												
5	Order submission	To be decided												
6	Public offering finishes	To be decided												
7	Trading	To be decided												
8	Submit a trading report to FRC	To be decided												
9	Shareholder's Meeting	To be decided												

LEGAL OPINION

In accordance with an article 10.8.1, section 10 of "Securities registration procedure", concluded by an appendix of resolution #6 of Financial Regulatory Commission as of January 15th, 2014, "Legal opinion" was executed by "Anand Advocates" LLP as of May 19th, 2014.

Legal opinion was based on following documents of the Issuer:

1. Company's charter, legal entity certification, presentation,
2. Employment and other operational resolutions
3. Contracts and agreements signed with third parties
4. Authority's decision which granted permits regarding company's operation, licenses and special permits,

The legal opinion is in total of 28 pages of which only "Summary" section is included in this prospectus. If you would like to be presented by full version of the legal opinion, please contact the Issuer.

Legal opinion

- The company' (BDSec JSC) is a member of Mongolian Stock Exchange and its shares are publicly traded.
- Company's charter and internal resolutions fully complies with the Company law and the Corporate Governance Code of Mongolia.
- As recommended by the Corporate Governance Code of Mongolia, the followings regulations were approved and fully complied by resolution #03 of Board of Directors as of February 12th, 2012: "Regulation to hold shareholders' meeting of BDBSec JSC", "Dividend regulation of BDBSec JSC", "Internal control regulation of BDBSec JSC", "Regulation of BOD's functionality of BDBSec JSC" and "Regulation of information distribution of BDBSec JSC".
- The Board of Directors of the company established Audit committee under the BOD. Corporate Governance Code of Mongolia recommended the Board of Director to establish committees that would effectively recommend on certain aspects of the company's operation.
- The company approved a regulation of information distribution and complies with the regulation, which becomes the basis of increased transparency and investors belief.
- Regulations specific to company's operational uniqueness were approved and fully complied by the company which meets the requirements of Financial Regulatory Commission and Securities market law.
- The company fully complies with the requirements set in the framework of its brokerage, dealer, underwriting and investment advisory services, granted by Financial Regulatory Commission, thus there is no reason to repeal or terminate the special permits by the authorities. According to an article 5.1, section 5 of "Special permits of regulated operations in securities market", which was approved by resolution #506 by Financial Regulatory Commission on December 12th, 2013, which states that "The

- commission shall grant an applicant special permits permanently in case ... requirements are fully met", company's special permits were given permanently.
- A decision of additional share issuance was proposed by the company's shareholders' meeting which fully complies with an article 62.1.3 of Company law.
 - Contract and agreement payments the company agreed to are made in relevance of final results.
 - Underwriting agreement signed by the Company is part of company's main operation as a result, pursuant to an article 84.1.1. of the Company Law, the transaction will not be considered as Large scale transaction.
 - The company put shares under ownership of Dayanbilguun.D, one of the main shareholders of the company, as loan collateral for Golomt Bank. An agreement that Dayanbilguun.D, a shareholder of the company, takes responsibility for the company by this shareholding, is a conflict of interest transaction in accordance with an article 89.1.1 of the Company law. Also, stock purchase agreement of "MI" LLC and Rights transferring agreement are considered as conflict of interest transactions. An article 92 of the Company law was complied when the company executes conflict of interest transactions
 - Additional share issuance of 6,000,000 (six million) shares at 2,146 (two thousand one hundred and forty six) tugrigns is large scale transaction in accordance with an article 87.1.2 of Company law. As stated by the counting commission of Annual Shareholders' Meeting, additional share issuance was approved by 100 percent vote. Shareholders' meeting resolution on an additional share issuance was concluded in accordance with an article 88.1 of Company law.
 - Contracts and agreements the company signed with third parties within a period of legal opinion support company's main and normal operations and are made fully in compliance with laws and regulations in effect.
 - Registration request to Financial Regulatory Commission, primary market placement request, equity prospectus and relevant documents are in compliance with requirements and standards of relevant laws and regulations of Financial Regulatory Commission and Securities registration procedures.
 - Information provided in an equity prospectus can be fully validated by state authorities and their references.
 - It is to state that Dayanbilguun.D, a citizen of Mongolia, a shareholder and an Executive director of the company, is an executor of the company's monitoring. Dayanbilguun.D has no convictions and is a founder of "BDSec" JSC. He has been one of the executive managements of the company for 18 years.

PARTICIPANTS OF THE EQUITY OFFERING, CONTRACTS AND AGREEMENTS SIGNED WITH THEM

In regards to an additional share issuance, in accordance with Securities market law and relevant laws and resolutions of FRC and MSE, the Issuer had its operational report, financial statements, security issuance resolutions, agreements and reports validated by an independent auditing and valuation services. In which:

1. Audit opinion

BDSec JSC signed an auditing service agreement with BDO Mongolia LLC on November 1st, 2013. In accordance with this agreement, "BDO Mongolia" LLC was obligated to express an audit opinion on financial statements ending December 31st, 2013 inclusive of balance sheet, income statement, cash flow statement, statement of changes in equity and its footnotes. The auditor also expressed an audit opinion on year end financial statements of 2011 and 2012.

The auditing company fulfilled its obligation upon delivering an INDEPENDENT AUDIT REPORT on February 28th, 2014 to the Issuer.

BDO Mongolia LLC was established in December, 2012 in Ulaanbaatar city, Mongolia upon a merging of Itgelt Audit LLC and Amar Incon LLC. Itgelt Audit has been providing accounting, auditing and advisory service since 1997 and is one of the top 5 auditing companies of Mongolia. Amar Incon LLC has been one of the top advisory service companies in Mongolia since 2005.

BDO network was established in 1963 upon a cooperation of United Kingdom, Holland, Germany, the US and Canadian organizations in order to provide better quality service to customers.

2. Valuation

the Issuer sign a contract with "Dalaivan Audit" on February 4th, 2014 in order to conduct revaluation of company's assets (building, transportation means, equipments, furniture, computer and other tangible and intangible assets including its daughter company's assets).

Dalaivan Audit LLC delivered "Fixed asset revaluation report" to the Issuer on February 12th, 2014, fulfilling its obligations stated in the contract.

Dalaivan Audit was established in 1993, being the first auditing company of Mongolia. Since its establishment, the company has been the leading company in the market.

The company conducts auditing, accounting, tax advisory and asset valuation services. Has branch offices in Darkhan-Uul and Orkhon provinces.

In 2007, the company became an independent member to represent Mongolia of Baker Tilly International, which is an auditing, accounting, business advisory service network, having 149 members of 125 countries.

3. Legal opinion

Signed a Legal advisory service agreement with "Anand and Batzaya" LLC (Anand Advocates LLP) on April 22th, 2011. In a framework of this agreement, BDSec JSC had an independent legal opinion issued on the company's charter, legal contracts and agreements signed with others, large sum or conflict of interest transactions.

The legal advisory company provided a Legal opinion to BDSec JSC on May 19th, 2014.

Anand Advocates LLP was established in 2004, which is the legitimate continuation of "Anand and Batzaya" LLC. The partnership is a legal entity of Mongolia which conducts legal advisory and advocacy services.

CONTRACTS AND AGREEMENTS, WHICH ARE WORTH MORE THAN 5% OF ITS SHARE CAPITAL, SIGNED BY THE ISSUER AND ITS IMPLEMENTATIONS

The issuer signed the following agreements worth an amount stated in an article 10.5.7 of Securities market law and fully complied with and fulfilled legal obligations and responsibilities. In which:

Legal agreements currently in effect:

- Signed an underwriting agreement with "HBOil" JSC on December 30th, 2013. In accordance with this agreement, "BDSec" JSC successfully raised 5 million USD worth of convertible loan for "HBOil" JSC on its project in Democratic People's Republic of Korea (DPRK). "BDSec" JSC is currently working on converting the loan into shares.

Contracts and agreements fulfilled:

- Signed a loan agreement /loan agreement number: ZG81115006307/ with Golomt bank on August 2nd, 2013 to borrow 300 million MNT for 3 months with 16.8% annual interest rate. BDSec JSC fully paid the loan within an agreed period.
- Signed a loan agreement /loan agreement number: ZG81115005220/ with Golomt Bank on December 19th, 2011 BDSec JSC agreed to borrow 1.5 billion MNT with an interest rate of 1.6% between December 19th, 2011 and December 29th, 2011. The company fully paid the loan within an agreed period.
- Signed an underwriting agreement with "Beren Mining" JSC on April 21st, 2011. In a framework of this agreement, BDSec JSC was obligated to obtain related permissions on an issuance of 130,560,999 MNT worth of stock which is equal to 30% of the

company and offer the issuance to the public. As agreed in the contract, "BDSec" JSC obtained necessary permission from FRC and MSE to trade the stocks and offered the stock to the public on best effort basis.

- Signed an underwriting agreement (agreement number: JGKhA/10-11) with "Just Group" LLC on March 14th, 2011 on an issuance of 3,000,000 bonds at a price of 10,000 MNT each. BDBSec JSC successfully raised 4.4 billion MNT of capital from the market.
- Signed an underwriting agreement with "Mongol 999 National Consortium" JSC on February 28th, 2011. Signed an underwriting agreement with "Mongol 999 National Consortium" JSC on February 28th, 2011. In accordance with this agreement, BDBSec JSC was obligated to offer the company's shares to the public and trade the shares. Yet, due to specific reasons of the contractor, the contract was canceled.
- Signed an Agency agreement with Aurum Resource Mining on April 20th, 2012. In the framework of this agreement, BDBSec JSC worked to raise 4,816.0 million MNT worth of capital necessary for "Jump-Gold" LLC through private placement. Yet, due to uncertainties related to new investment law approved by the parliament, new trading system introduction to the stock exchange which dried up trading volume on the capital market and economic and market slowdowns, agreement signed with "Jump-Gold" LLC was canceled on May 27th, 2013.

INDEPENDENT AUDITOR'S OPINION

To the shareholders of BDSec JSC,

We have audited the accompanying financial statements of "BDSec" JSC which was stated in pages 5 to 39 as of December 31, 2013, which comprises of the statement of financial positions, income statement, statement of changes in equity and cash flow statement as of a given date and other explanatory notes to the financial statements and a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards and for such proposal and investigation of an internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, adoption of adequate accounting policies and implementation of reasonable accounting estimates.

Auditor's responsibility

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusion

In our opinion, the financial statements as of 31 December 2013 present fairly, in all material respects, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS")

Usage of the statements

These statements have been published by "BDSec" JSC for its shareholders in accordance with an article 94 of the "Company Law" of Mongolia. We will not be responsible for the content of this statements in front of third party.

(signature)

(stamp)

date: February 28th, 2014

"BDSEC" JSC

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31ST, 2013

unit: thousand MNT	Dec 31, 2013	Dec 31, 2012
ASSET		
Working capital		
Cash and cash equivalents	857,856.00	661,214.00
Short term investment	4,096,218.00	4,387,242.00
Trading and other receivables	1,268,499.00	872,201.00
Income tax receivables	21,942.00	54,633.00
Amount of working capital	6,244,515.00	5,975,290.00
Non-current capital		
Net fixed asset	3,396,621.00	3,660,528.00
Net intangible asset	3,330.00	1,260.00
Long term investment	1,081.00	2,081.00
Long term receivable	104,261.00	108,867.00
Deferred tax asset	-	2,195.00
Amount of non-current working capital	3,505,293.00	3,774,931.00
TOTAL ASSET	9,749,808.00	9,750,221.00
LIABILITY		
Short term liability		
Trading and other payable	104,459.00	202,030.00
Other tax payable	12,696.00	17,187.00
Dividend payable	660,000.00	-
Prepaid income	10,000.00	20,000.00
Amount of short term liability	787,155.00	239,217.00
Long term liability		
Deferred tax payable	44,542.00	61,946.00
Amount of long term liability	44,542.00	61,946.00
TOTAL LIABILITY	831,697.00	301,163.00
EQUITY		
Share capital	3,925,305.00	3,925,305.00
Reserve revaluation	1,300,244.00	1,300,244.00
Unrealized foreign exchange gain / loss	400,877.00	557,512.00
Accumulated profit	3,291,685.00	3,665,997.00
Amount of equity	8,918,111.00	9,449,058.00
DEBT AND EQUITY	9,749,808.00	9,750,221.00

“BDSEC” JSC

PROFIT AND LOSS STATEMENT AS OF DECEMBER 31ST, 2013

unit: thousand MNT

	2013	2012
Sales revenue from main operation	2,446,064	5,777,990
Cost of securities traded	(650,221)	(1,093,568)
Gross profit	1,795,843	4,684,422
Rental income	150,364	120,565
Financial income / loss	32,759	42,006
Operational expense	(1,628,571)	(3,108,205)
Operational profit	350,395	1,738,788
Non-operational profit	463	1,407
Non-operational expense	(27,890)	(74,659)
Profit before tax	322,968	1,665,536
Tax expense	(35,086)	(174,140)
Net profit of the reporting year	287,882	1,491,396
Earning per share (tugrigs)	26	136
OTHER COMPREHENSIVE INCOME		
	2013	2012
Net profit of the reporting year	287,882	1,491,396
Unrealized gain / loss from short term investment	(174,039)	(771,532)
Deferred tax on unrealized gain	17,404	77,153
Comprehensive income	131,248	797,015
Comprehensive income per share	12	72

"BDSEC" JSC

CHANGES IN EQUITY STATEMENT AS OF DECEMBER 31ST, 2013

unit: thousand MNT

	Share capital	Paid in excess of par	Revaluation surplus	Reserve for foreign currency translation	Retained earnings (losses)	Total
Balances at January 1st, 2012	1,100,000	2,825,305	1,300,244	1,251,891	2,194,603	8,672,043
Changes in accounting policy	-	-	-	-	(20,000)	(20,000)
Adjusted balance as of January 1st, 2012	1,100,000	2,825,305	1,300,244	1,251,891	2,174,603	8,652,043
Gain (losses) not reported in the income statement	-	-	-	(694,379)	-	(694,379)
Net income for the current period	-	-	-	-	1,491,394	1,491,394
Balances at December 31st, 2012	1,100,000	2,825,305	1,300,244	557,512	3,665,997	9,449,058
Refunding of non-transferred loss	-	-	-	-	(2,195)	(2,195)
Loss not reported in the income statement	-	-	-	(156,635)	-	(156,635)
Dividend paid*	-	-	-	-	(660,000)	(660,000)
Net income for the current period	-	-	-	-	287,883	287,883
Balances at December 31, 2013	1,100,000	2,825,305	1,300,244	400,877	3,291,685	8,918,111

* - In accordance with a resolution No.08 of Board of Directors as of February 18th, 2013, it was decided to pay 60 MNT per share from 2012 net profit

“BDSEC” JSC

CHANGES IN EQUITY STATEMENT AS OF DECEMBER 31ST, 2013

unit: thousand MNT

<i>Cash flows of operating activities</i>	2013	2012
Cash receipts of operating activities		
Cash receipts from sales and traders	1,534,718	4,284,489
Cash receipts of auxiliary operations	124,633	15,567
Cash receipts of insurance compensation	1,526	15,857
Other cash receipts	-	15,454
Cash receipts from customers	7,685,474	133,837,510
Amount of total cash receipts	9,346,351	138,168,877
Cash disbursements of operating activities		
Cash paid to employees	(396,552)	(321,351)
Cash paid to social insurance organization	(99,910)	(78,064)
Cash paid for purchase of raw materials	-	-
Cash paid for utility expense	(99,432)	(36,188)
Cash paid for fuel, petrol and transportation	(42,768)	(24,437)
Other cash paid to suppliers	(294,642)	-
Interest paid	-	-
Taxes paid	(43,908)	(339,623)
Insurance expense paid	(898,404)	(1,618,961)
Other cash expenses	-	(852,967)
Cash paid to customers	(7,676,131)	(134,235,550)
Amount of total cash disbursements	(9,551,747)	(137,507,141)
Cash flows provided by (used in) operating activities	(205,396)	661,736
Cash flows of investing activities		
Cash receipts from the disposal of fixed assets	1,000	6,708
Cash disbursement for the purchase of fixed assets	(12,813)	(254,572)
Cash receipts from the disposal of investments	941,840	1,575,388
Cash disbursement for the purchase of investments	(533,237)	(949,074)
Received interest and dividend	3312	8,189
Cash flows provided by (used in) investing activities	400,102	386,639
Cash flows of financing activities		
Proceeds from issuance of shares	-	-
Loan received from banks	300,000	1,372,805
Cash disbursement for loan payments	(300,000)	(1,372,805)
Cash donation paid	-	(10,000)
Cash dividends paid	-	(550,000)
Cash interest and premium income	10,534	28,747
Foreign currency exchange difference	(8,600)	55,514
Cash flows provided by (used in) financing activities	1,934	(475,739)
Net cash flows	196,640	572,636
Beginning balances of cash and cash equivalents	661,214	88,578
Ending balances of cash and cash equivalents	857,854	661,214


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