

“Silikat” JSC

PROSPECTUS

The Issue

Number of shares:	16,222,300
Nominal value per share:	100 MNT
The offer price per share:	225 MNT
Amount of capital to be raised:	3,650,000,000.00 MNT



Underwriter

Member of Mongolia Stock Exchange

“BDSec” Joint Stock Company

Underwriter, Brokerage

Investment Advisory

www.bdsec.mn

Address: Zaluuchuud Avenue 27/1,

Sukbaatar District

Ulaanbaatar, Mongolia

HEREIN PROSPECTUS IS THE PERFECT REPRODUCTION OF PROSPECTUS, WHICH SUBMITTED TO MONGOLIAN FINANCIAL REGULATORY COMMITTEE, AND THE ACCURACY OF INFORMATION CONTAINED IN THIS PROSPECTUS IS DULY ACCOUNTABLE FOR BOTH PARTIES INCLUDE SHARE ISSUER AND UNDERWRITER.

SHARE ISSUER SHALL BE INCREASED THEIR EQUITY FUND IN ACCORDANCE WITH THE "COMPANY LAW" OF MONGOLIA AND ALL RELATED REGULATION PURSUANT TO MONGOLIAN FINANCIAL REGULATORY COMMITTEE LAW.

IN ACCORDANCE WITH ARTICLE 7.1 OF THE "SECURITIES LAW" THIS PUBLICLY OFFERED SHARES ARE REGISTERED AT FINANCIAL REGULATORY COMMITTEE. IN DOING SO, YOU SHOULD CAREFULLY CONSIDER THAT ANY RISK INVOLVED IN ISSUING SHARES IS NOT GUARANTEED.

YOU SHOULD ALSO BE AWARE OF THAT PARTICIPATING IN MAKING INVESTMENT BY TRADING SHARES ARE **ALWAYS RISKY** ACTION CAN QUICKLY LEAD TO LARGE LOSSES AS WELL AS GAINS.

IN ADDITION, YOU SHOULD CAREFULLY STUDY THIS PROSPECTUS INCLUDE THE PROCESS OF ISSUING SHARES IN ORDER TO MAKE WISE INVESTMENT DECISION.

Glossary

AGM	Annual General Meeting
BOD	Board of Directors
Currency Rate	Exchange rate of Bank of Mongolia as of given date
EPS	Earnings per share
FRC	Financial Regulatory Commission
JSC	Joint Stock Company
LLC	Limited Liability Company
MSE	Mongolian Stock Exchange
P/E	Price to earnings ratio
PIT	Personal Income Tax
ROE	Return on Equity
SCHCD	Securities Clearing House and Central Depository
Issuer	“Silikat” JSC to finance by issuing securities
Ticker	SIL, which is MSE ticker of “Silikat” JSC
Tugrug	The official currency of Mongolia
U.S. dollar	The official currency of the United States of America
Underwriter	“BDSec” JSC that is executing IPO
USA	United States of America
UST	University of Science and Technology
VAT	Value Added Tax

Chemical Terminology

CaCO ₃	Calcium Carbonate
CaO	Calcium Oxide
CO ₂	Carbon Dioxide
MgO	Magnesium Oxide
pH	measurement of the acidity of basicity

1.1 BRIEF INFORMATION

The issuer was first established in 1966 and started operating in construction material and lime production sector, and was registered as a joint stock company being listed on MSE in 1992. It has been 45 years since the company was first established.

As over-concentration of shares created big gap between market price and real price, par value per share was estimated again based on the financial report of 2010 and it was decided to have 30 112 303 shares at par value of 100 MNT. As the book value per share was 17 765 MNT according to the financials of 2010, price per share has been estimated to be 100 MNT and 1-to-177 split has been made.

The company's operation had stopped since the year of 1998, though current owners and executives started the scenario to put the factory back into operational again in 2005. Total amount of 3,650,000,000 MNT is required in order to ensure normal operation, pay off outstanding debt, increase the capacity and renovate technology, thus it has been decided to finance by issuing 35% of company's equity or 16,222,300 shares to the public.

Based on the currently operating base and infrastructure, introducing factory with modern technology to manufacture high quality, low cost and competitive products is becoming the project rationale.

By using this lime factory:

- Utilization which previously was 65-75%, of main raw materials including coal and lime stone technology, would increase up to 100% for coal and 90% for lime stone.
- Decreasing cost of lime stone along with its increased quality would make the product more competitive in the market.
- Eco-friendly manufacturing would take place and the emission of carbonic acid that results from incomplete combustion, will decrease dramatically.
- Lime quality and standard would reach international benchmark.
- Quality of lightweight concrete block would increase and its cost would decrease because of increased quality and its reasonable cost.
- Factory capacity utilization to crush gravel and segregate would increase.
- As revenue goes up along with increased quality, factory capacity utilization would reach up to 100%.
- Factory would not only supply domestic market, but export abroad.

1.2 PLACEMENT PLAN IN THE PRIMARY MARKET

Security placement in the primary market will be done through order registration. The new shares will be introduced within 3 weeks after the resolution from FRC and MSE is made, and orders submission will be done through broker and dealer companies for a week starting on the 3rd week. After these, order assessment, price setting and placement in the primary market will be executed.

	1 st week	2 nd week	3 rd week	4 th week	5 th week	6 th week	7 th week
FRC Resolution, MSE registration	Precondition to introduce the shares to the public						
Introduce the shares to the public		Introduce through public press and websites of broker and dealer companies					
Open/close registration				Execute registration during 5 working days at or over 225 MNT through broker and dealer companies and finish registration at the closing time of stock trade on the last working day			
Conclude registration, set the price					Receive all orders and set trading price of primary market on the basis of market demand within 3 working days by cooperating with the issuer and the underwriter.		

Get permission to trade					Submit request of trading in the primary market to FRC within 2 working days		
Trading in the primary market						After permission is given, organize to sell to the public through trading of MSE within 2 working days	
Hand out the report to FRC						Hand out report to FRC and attach reported information to AGM	
Hold AGM							Hold meeting within 30 days after meeting announcement

Table No.1 Placement plan in the primary market

1.3 PARTICIPATED COMPANIES' INFORMATION IN SECURITY ISSUING

Audit	<p>“Suld Audit” LLC Address: 6/7 Baga toiruu, Street of united nation, 4th khoroo, Chingeltei district, Ulaanbaatar city Contact number: 70118016 Website: www.suld-audit.mn E-mail: gundbayar@suld-audit.mn</p>
Law	<p>“Mongol Umguulugch” law firm Address: #201, Grand office center, 1st khoroo, Sukhbaatar district, Ulaanbaatar city Contact number: 70129206 Website: www.advocate.mn E-mail: info@advocate.mn</p>
Valuation	<p>“Undesnii Realty” LLC Address: 6/7 Baga toiruu, Street of united nation, 4th khoroo, Chingeltei District, Ulaanbaatar city Contact number: 99182632 E-mail: b_naraa2@yahoo.com</p>
Economic feasibility processing of mining	<p>“Evseg Mongol” LLC Address: 4th floor, building of Mon-Ar LLC, Tourist street – 34, Chingeltei district, Ulaanbaatar city</p>
Underwriter	<p>“BDSec” Joint Stock Company Address: Central office of “BDSec” JSC, 27/1 Zaluuchuud Avenue, 8th khoroo, Sukhbaatar district, Ulaanbaatar city, Mongolia Contact number: 11-312030 Website: www.bdsec.mn E-mail: info@bdsec.mn</p>

1.4 INFORMATION OF DECISION MAKING BODIES

Nº	Full name	Occupation	Address
1	Tuul Davaasuren	Lawyer,Legist	Board Chairman of "Silikat" JSC 8-6, 1st 40,000, 1st khoroo, Chingeltei district, Ulaanbaatar.
2	Sodbileg Tserennadmid	Philosophy	CEO of "Silikat" JSC 31-49, 8th khoroo, Chingeltei district, Ulaanbaatar city
3	Sergelen Tserennadmid	Concentrator	Factory Director of "Silikat" JSC 9b-32, 8th khoroo, Bayangol District, Ulaanbaatar city
4	Bolormaa Tserennadmid	Accountant	Accountant of "Silikat" JSC 54-276, 10th group, Darkhan-Uul province
5	Enkhbold Dorj	Undergraduate	Sales manager of "Silikat" JSC 200-39, 4th khoroo, Bayanzurkh district, Ulaanbaatar city
6	Munkhtuya Volodya	Economist	Accountant of "Agch Trade" LLC 31-49, 8th khoroo, Chingeltei district, Ulaanbaatar
7	Tsogtslon Nyamdash	Lawyer	Deputy Factory Director of "Silikat" JSC #12, 6th sub-group, 15th group, Darkhan-Uul province
8	Naranzul Myagmarsuren	Technologist of construction materials	Technologist of "Silikat" JSC 1a-89, 14th group, Darkhan-Uul province
9	Ser-Od, Byamba	Technologist of construction materials	Technologist Engineer of "Silikat" JSC 2-6, 3rd group, Darkhan-Uul province
10	Ganbold Jalbuu	Business Administration, economist	Operation Director of "Silikat" JSC 31-11, 6th khoroolol, 6th khoroo, Chingeltei district, Ulaanbaatar city

1.5 ONE. COMPANY INFORMATION

1.1 ADDRESS OF THE SECURITY ISSUER

Central Office:

Building of "Silikat" JSC, Factory district, Darkhan-Uul province

Telephone: 01-37-2024755

Fax: 01-37-2024755

Branch in Ulaanbaatar city:

#306, Chonon Burt center, Soul street, Sukhbaatar district, Ulaanbaatar city

Telephone: 976-70117116

Fax: 976-70117116

Web site: www.silikat.mn

E-mail: info@silikat.mn

1.2 INFORMATION OF SECURITY ISSUER'S REGISTRATION

Company name:	"SILIKAT" JSC
Year of establishment:	1966
State registration number:	1910010007
Registration number:	2050463
Territory certificate number:	0079244
Fixed asset certificate number:	Y-20030010435, Y-2003006765, Y-20030011621
Square meter of total factory:	43000 square meter
Main operation:	Lime and lightweight concrete production, sand, lime stone extraction
Owning mineral reserve:	
Lime deposit:	Main lime stone deposit covers 25 hectare square, which is 4 kilometers far from the factory, held under the operation license of 14949A.
Sand deposit:	Sand deposit covers 31 hectare square, which is 9 kilometers far from the factory, held under the license of 3998X

1.6 SECURITY ISSUER'S LOCATION



Picture 1. Company Location

The factory is located in the manufacturing district of Darkhan-Uul province, which is the largest region of construction material in Mongolia; 220 kilometers far from Ulaanbaatar city.

Geographically, this region of Darkhan-Uul province is considered as having abundant raw-material resource of construction materials, coal, gold and iron.

1.7 HISTORY OF THE ISSUER

1966-1992	<p>In 1966, the factory started its operation with technologic and economic assistance from Polish Republic in Darkhan city under the name of lime and white brick manufacturer. It was one of the largest factories, manufacturing 22 thousand tons of lime and 29 million heads of brick in a year, 60-70 tons of 60-70% active lime, 100-120 thousand heads of 100-150 mark silicate brick a day and supplied 25% of construction material of Mongolia by itself.</p> <p>During the time when it was under normal operation between a year of 1966 and 1922, the factory used to produce total of over 900 million silicate brick, 450 thousand tons of lime and not only supply domestic market demand, but export to Russia.</p>
1992-1998	<p>The factory was organized into "Silikat" JSC pursuant to the resolution number 40 of national privatization commission. Though it has been required to improve factory technology, and increase capacity, no solution was to solve these problems up until now.</p> <p>Since 1992, both the production amount and factory efficiency level started to decrease, and the manufacturing was fully stopped in 1998. This is somehow related to the breakdown of socialism and the fact that every sector was under economic recession /1989-1999/.</p>
1998-2006	<p>Stagnant construction sector resulted brick demand to reduce, and the factory to wear out, not being able to become operational.</p>
2004-2005	<p>Relevant to the projects being initiated by the government and economic growth in construction sector, current factory management team chose "Silikat" JSC in Darkhan to buy and decided to make an investment in it. As the factory is fully connected to the infrastructure and possesses deposit of main raw material, decision was greatly influenced by it. Decision to make the factory operational again was made as current management team got control-package in 2004 and reformed company's BOD in 2005.</p>
2005-2006	<p>After fixing non-operational technology lines which resulted from years of interruption, by owners' capital (480 million MNT), manufacturing started again and produced 350 thousand white bricks and supplied to the market. At that time, renovation in construction-assembling technology made the brick demand to decrease and driven up that of light concrete. Although white brick was high quality, its high cost made it unable to compete with normal red brick.</p>
2006	<p>Set up the project to change white brick technology line into light concrete manufacturing, and execute capital repairs in 4 lime factory ovens, and to increase the capacity.</p>
July, 2007	<p>Pursuant to the loan agreement number 21, company took 441 155.0 MNT of loan from Zoos bank and changed white brick to light concrete manufacturing technology, and made the line operational again.</p> <p>Factory capacity was increased up to 130 cubic meter of light concrete.</p>

March-July, 2008	Up to 80% of active, quality pure lime manufacturing was started after making an investment agreement of 2 billion MNT with Zoos bank, and took a loan of 1,041,240.5 thousand MNT pursuant to the agreement number 8, and 200,000.0 thousand MNT pursuant to number 16 in order to renovate lime manufacturing and start expansion project. After such provisions, in 2008 the factory manufactured 20 thousand cubic meters of light concrete block, and 6000 tons of lime. Because of the economic recession, banking operation was hit and stopped lending program that resulted the factory to stop its operation fully.
2009	As economic recession made construction sector be lack of investment, the light concrete manufacturing was limited. This year, 18 thousand cubic meters of light concrete, 12 thousand tons of lime were manufactured and sold to the market.
2010	Construction sector recession continued and the manufacturing decreased to 12 thousand tones. Soon after the recovery in mining sectors increased lime needs up to 16 thousand tones. Though during this period, factory capacity usage was under 30% to experience operational loss. As expansion project of lime factory couldn't complete because debt financing was stopped, the factory couldn't supply increasing-demand of lime market. Furthermore, due date of loan payment also resulted financial hardship for company. Overcoming these difficulties by using internal financing is limited, thus it was decided that the optimal solution was equity financing to issue additional shares in order to expand lime factory, renovate technology, and benefit from lime market growth. By implementing above decision, company operation became more transparent and active along with better corporate governance and real market value.
2011	As economy recovers and construction and mining sector investment increases, it enables to maintain profitable and stable manufacturing and strengthen market share.

Company's short term plan

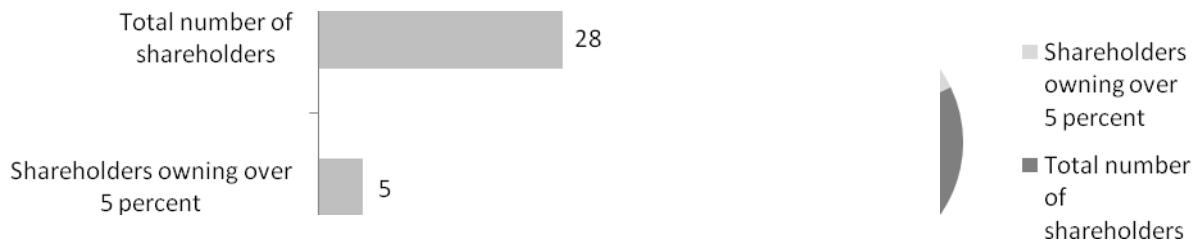
Company's short term plan is to manufacture high quality, low cost, eco-friendly lime and light concrete that match with customers' and international standard, with modern technology and to strengthen market share.

1.8 ORGANIZATION STRUCTURE AND AGENCY INFO OF THE ISSUER

The highest governing body of the issuer is an annual general meeting (AGM). Board of directors (BOD) and supervisory committee are elected from the AGM and BOD elects board chairman.

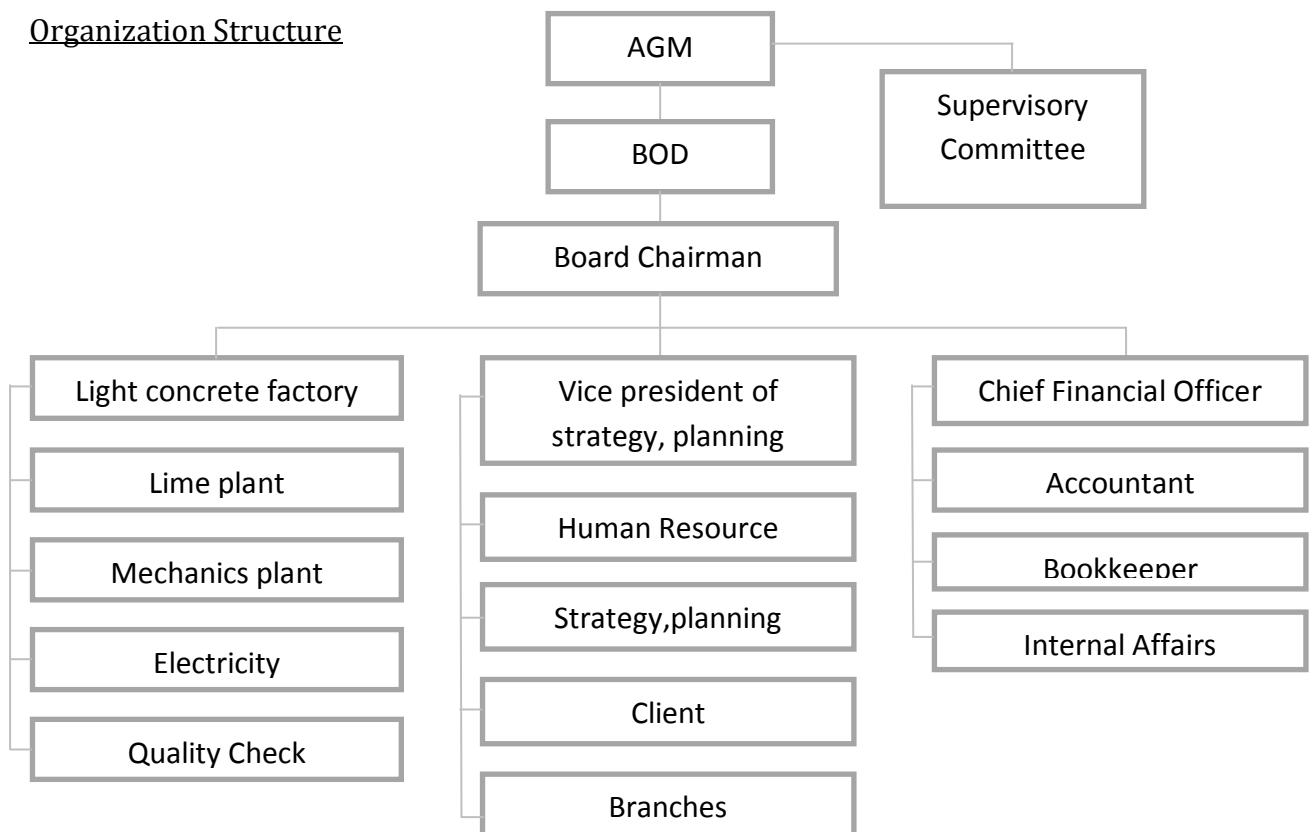
Number of Shareholders

Composition of shareholders (percentage)



Picture 2. Shareholders number, composition

Organization Structure



Vice president of strategy and planning is in charge of human resource, strategy and planning, and matters related to clients. General manager, marketing manager, sales manager, director in charge of Ulaanbaatar, mechanic engineer, employment security engineer, assistant, cook, service employees are included in the Department of Strategy and Planning.

Chief Financial Officer is in charge of corporate accounting, finance and internal affairs. General accountant-1, supervisory accountant-1, senior bookkeeper-1, bookkeeper-2 are working in this department.

Main manufacturing section includes light concrete, lime factory, **factory affiliate facilities** and machine shop, electricity, plumbing and quality check.

Light concrete factory operates in two sections, though lime factory is divided into mining and oven plant. Mechanics plant includes fixing and auto fixing section, electricity is divided into sections that are in charge of plumbing and electricity; quality checking section includes quality checking and laboratory.

Light Concrete	Lime Plant	Mechanics Plant
1. Shift senior mixer 2	1. Senior oven operator 3	1. Lathe operator 1
2. Assistant mixer 2	2. Assistant oven operator 9	2. Welder 2
3. Cast controller 2	3. Lime transferring operator 3	3. Fixer 4
4. Cast lubricator	4. Stone smashing operator 3	4. Plumber 2
5. Sand mill operator 2	5. Stone sorter 6	5. Driver 6
6. Lime transferring operator 2	6. Excavators 1	6. Oven master 1
7. Sand operator 2	7. Blasting operator 1	7. Electricity engineer 1
8. Field transferring operator 4		
9. Crane operator 3		
10. Loader 2		
11. Senior autoclave operator 3		
12. Assistant autoclave operator 3		
13. Electrician		

Table 2. Human resource

Workforce structure of the issuer was firstly started since 45 years ago when the factory was built and now whole 2-3 generations work here. Now 38,95% of total number of workers are up to 35-year old, 31,58% is between 35 and 45, remaining 29,47% is over 45-year old.

Regarding education level of 44 positions among total of 95 workers ranging between 20-45-year old, 38% is graduate, 60% is college or trained workers, and 2% is high school graduates.

1.9 SECURITY ISSUER'S DIVIDEND POLICY

Dividend policy

- Company will manage shareholder's asset efficiently and increase dividend amount annually and maintain it at certain amount.
- Dividend distribution will be decided by BOD.
- Company decision of not distributing dividend in any given financial year will be presented at the AGM along with its reason, justification, financial calculation and further measurements to be taken to distribute dividend.
- Dividend, which is distributed from company's profit, can be in the form of cash, security or asset.

Defining dividend amount

- Because the decision on dividend distribution becomes one of the major indicators of company's financial situation and operation, it can be an optimal indicator of company's true situation.
- Dividend amount is estimated by subtracting out investment of business plan and social activity costs from net profit shown in company's financial statement. This amount will not be under 20% of any given financial year's net profit
- Pursuant to the company's law, following conditions must be satisfied in order to distribute dividend
 - Company to be financially capable after paying out dividend
 - Amount of total asset to be more than the sum of unpaid dividend of preferred shares, liquidation cost, and the minimum amount pointed in the law.

Dividend distribution

- Dividend form and distribution period should be as convenient as possible for all shareholders.
- If dividend is in form of cash, it should be distributed into shareholder's accounts through common procedure.
- Start and end date of dividend payout should be clearly referred in the resolution, and dividend distribution should finish on time.

1.10 SHAREHOLDER'S INFORMATION OWNING OVER 5 PERCENT

No	Shareholder	Occupation, address	Residential address	Owning percentage
1	Sodbileg Tserennadmid	CEO of "Silikat" JSC	31-49, 8th khoroo, Chingeltei District, Ulaanbaatar	24.95%
2	Zolbootugs Zodbileg	Student	31-49, 8th khoroo, Chingeltei District, Ulaanbaatar	21.72%
3	Odjargal Zodbileg	Student	31-49, 8th khoroo, Chingeltei District, Ulaanbaatar	18.93%
4	Enkhbold Dorj	CFO of "Silikat" JSC	200-39, 4th khoroo, Bayanzurkh District, Ulaanbaatar	12.77%
5	Munkhtulga Volodya	Accountant of "Ach Trade" LLC	31-49, 8th khoroo, Chingeltei District, Ulaanbaatar	12.00%
6	Tsogtslon Nyamdash	Vice president of strategy, planning and human resource of "Silikat" JSC	#12, 6th sub-group, 15th group, Darkhan-Uulaimag	7.50%

1.11 INFORMATION OF DECISION MAKING BODIES

Pursuant to the 81st article of company law and 4th article of company rule, people in position of Board of Directors, chief executive officer, management team, director of financial department, general accountant and general specialists are considered as decision making bodies.

Board of Directors

No	Full name	Major	Occupation	Owning shares
1	Tuul Davaasuren	Lawyer	Board Chairman of "Silikat" JSC	No
2	Sodbileg Tserennadmid	Philosophy	CEO of "Silikat" JSC	24.90%
3	Sergelen Tserennadmid	Mine concentrator	Factory Director of "Silikat" JSC	2%
4	Bolormaa Tserennadmid	Accountant	Accountant of "Silikat" JSC	No
5	Enkhbold Dorj	High school	Sales manager of "Silikat" JSC	22.77%
6	Munkhtuya Volodya	Economist	Accountant of "Agch Trade" LLC	12.00%
7	Tsogtslon Nyamdash	Lawyer	Factory vice president of "Silikat" JSC	7.50%
8	Naranzul Myagmarsuren	Construction material technologist	Technologist of "Silikat" JSC	No
9	Ser-Od Byamba	Construction material technologist	Technologist engineer of "Silikat" JSC	No

Table 4. BOD Information

Information of chief executive officer, member of management team, general accountant and general specialists

Chief executive officer

Sodbileg Tserennadmid was born on January 16th, 1968 in the center of Uvurkhangai aimag. He studied in high school between 1976-1986, in Tenger college between 1993-1997 and obtained his major of sociology from Philosophy and sociology class. Between 1998-2007, he worked as a director of Mongol Gazar LLC, and has been working as CEO of "Silikat" JSC since 2007.

General Engineer

Ganbold Galdaabaatar was born on November 25th, 1970 in Darkhan city. He studied in high school between 1978-1988. In 1994, he graduated from University of Technology as construction material technologist in Darkhan city. He satisfied the requirement of Mongolian specialized engineer in 2009

Operation Director

Ganbold Jalbuu was born in Sainshandsoum in Dornogobiaimag on June 17th, 1965. He graduated from Agriculture and Industrial University of Mongolia in 1988 as agro-chemist. In year of 2000, he got Business Administration from Ural State University of Ekaterinburg city. Between 1988-1993, worked in Scientific Institution of Grass and Agriculture, between 2001-2009, he worked as director of "Agch Formula" LLC, and has been working as an operation director of "Silikat" JSC since 2009.

General Accountant

Uranchimeg Dejmaa was born in Aldarkhaan soum of Zavkhan province on April 10th, 1958. She studied in high school between 1965-1975, graduated from college of trading in 1977, finished NUM as accountant and economist in 1981. She also got bachelor degree of economist from Academy of Mangement in 1998. She satisfied the requirement of perpetual specialized economist, and Mongolian auditor.

- 1977-1986, senior economist of commercial base in Zavkhanaimag
 - 1986-1991, general accountant of City improvement office in Zavkhan aimag
 - 1991-2003, general accountant of water authority
 - 2003-2008, auditor in UB audit corporation
 - 2008, general accountant of Silikat JSC
-

Mechanic engineer

Bayarsaikhan Sainbayar was born in 1970 in Darkhan city. Studied in high school of Bulgan aimag between 1978-1988, graduated from Construction college of Motilov city of Belorus as plumbing technician, and finished Mongolian University of Science and Technology as an engineer. between 1997-2009, he worked in "KhungunBeton" JSC as mechanic engineer and has been working in Silikat JSC as mechanic engineer since 2011. In 2009, he became Mongolian specialized engineer.

Safety engineer

Asilkhan Sarind was born in Bayannuur soum of Bayan-Ulgii aimag in 1945. Studied in high school of Bayan-Ulgii aimag between 1958-1968, and graduated from Polytechnic College in Sverdlovsk city as thermo engineer. He worked in thermal station as thermo engineer, oven-repair engineer, senior engineer of Engineer and Technology Office between 1973-2005, as thermo engineer of Noyod Group between 2005-2007, and has been working as thermo engineer, safety engineer of "Silikat" JSC since 2007. He became Mongolian specialized engineer in 2006.

1.12 LOAN AND PAYMENT INFORMATION OF SECURITY ISSUER, BLOCKHOLDER, AND COMMON INTEREST COMMUNITIES

Sodbileg.Ts is the person who is a blockholder of publicly issued shares along with common interest communities.

It has been defined that blockholders don't have any overdue payment according to the description of "Working group of payment and settlement of bank and credit, savings union" of December 20, 2010 and "Loan information fund of Bank of Mongolia" of December 21, 2010

1.13 INFORMATION OF COMPANY'S CURRENT CONDITION

In 2006 after analyzing demand and yield of the market, factory started changing its silicate brick manufacturing line into lightweight concrete block and became operational on February 25th of that year. Capacity of light concrete (dimension of 360x180x600 and 360x240x600) manufacturing is 130 cubic meters per day or 40000 cubic meters annually.

As technology renovation was made in 2008, factory started manufacturing high quality pure lime that is up to 80 percent active, which divided into groups of 80-180 millimeter aggregate, 0-30mm pulverized, 0.063-0.08 mm grinded lime. The lime has national standard number of MNS-347-99, MNS-347-2002

The factory operates in 3 mainstream of manufacturing light concrete, lime and sand along with lime stone

Products	Standard	Size	Capacity
Light Concrete		360x180x600 360x240x600	40 thousand cubic meters per year or 135 cubic meters per day
Lime	MNS-347-99 MNS-347-2002	up to 70-80% active aggregate (10-80mm) and grinded lime	30 tones per day/ 10 thousand tones per day
Lime stone	MNS-963-91		40 tones per hour
Sand		SiO ₂	

Table 6. Factory Manufacturing

Lime not only is used in light concrete manufacturing as raw material, but also is distributed directly to the customers.

1.14 TECHNOLOGY MODE OF LIME PRODUCTION

After being extracted through a proper technology, lime stones are taken to the factory by 15-20 tons of capacity trucks for crashing. After initial crashing and sieving, the suitable fractioned lime stones (Ø60MM -930MM) go to lime furnace for firing and unsuitable ones such as 15-45mm fractioned lime stones are sold to Darkhan Metallurgical Plant, 5-15mm fractioned lime stones are sold to construction companies and 0-25mm fractioned lime stones are sold to Erel Cement factory at discounted price.

Those small fraction stones (10-60mm) are needed to be used properly by installing a necessary technology. Lime is produced after lime stones are burnt at 1200°C in 4 lime furnaces ($\text{CaCO}_3 \rightarrow \text{CaO} + \text{CO}_2 \uparrow$). After the furnace lime is sieved into powder and solid parts and sold to Boroo Gold Ltd., leather factories, and lightweight concrete block factories.

The key factor that lime quality is affected by is lime chemical content. CaCO₃ in lime content should not be less than 90%, MgO not higher than 3% and the other contents not higher than 10%.

Lime is the main raw material to adjust an environment of chemical reaction by increasing pH level in solution in order to activate floating concentration process of mineral concentration plants. The key factors that affects to the company's production quality, indicators and costs are infrastructure and raw materials.

About raw materials

Not only lime itself is a finished product it's also a key raw material for light concrete block. Main raw materials of lime and lightweight concrete block are siliceous sand, lime stone, coal and high pressure steam.

Lime stone –is extracted from 5th lime stone deposit of Darkhan-Uul province through drilling and blasting methods. The company has a lime stone purchase agreement with “CBZ” LLC and “Ider Kharkhan” LLC in order to ensure company's stable operation. The lime stone provider companies have their own lime stone deposits.

Introduction of Darkhan-5 Deposit

Deposit location: In 8km southeast Darkhan City, Darkhan-Uul Province, In 4km from “Silikat” JSC's plant.

Geographical coordinate of the deposit: 106° 5'; 49° 45'

Especial operation license: 14949A

Size of total licensed area: 24.9 hectare

Size of explored and reserve recognition area: 4.9 hectare

Amount of recognized reserves: 420.7 thousand tones.

Story of geological analysis: The lime stone reserves in the 5th deposit of Darkhan were explored and measured as production level by chief geologist, S.Doljin, and engineer, Ts.Yonchinkhuu of “Ikh Uusgel” JSC on 1995

Chemical content of lime stone of the deposit

Number of sample	Content of oxide in carbonate, %				Main mineral content
	CaO	MgO	IIIIX	Other contents	
Tso-1	53,48	0,38	42,55	3,59	CaCO ₃ -95,50
Tso-2	54,04	0,19	42,79	2,98	CaCO ₃ -96,50
Tso-3	53,20	0,19	41,97	4,64	CaCO ₃ -96,00
Tso-4	53,20	0,58	42,19	4,03	CaCO ₃ -95,00

Table 7 mineral content of the lime stone deposit that is planned to us

Tso is a number of drilling, sample note

Chemical mineral contents of above deposit meet ore concentration environment adjusting requirements of concentration plants in a mining sector.

Feasibilities study of the deposit and its utilization

In accordance with the meeting protocol no. 189, December 21, 1996, of geology and mining department of ministry of agriculture and manufacturing, the reserves in the

5th deposit of lime stone (belongs to especial mining licensed 1494A 24.9 hectare area of Silikat JSC) were confirmed as 1205.5 thousand tones through C1 level.

The feasibility study of the deposit was completed in 2010 by the mining engineers team of “Evseg Mongol” LLC headed by Mongolian Consulting Engineer* Ts.Bilegtbaatar. The feasibility study describes that the 1/5th or 420.7 thousand tons of reserves in 4.9 hectare area are projected to be used for 4.9 years with annual extraction capacity of 86 thousand tons of lime stone. The remaining reserves in the 4/5th or 20 hectare area need to be re-recognized and extracted.

Rehabilitation of nature

Earth that is destroyed by mining operation needs to be rehabilitated. Overburden that's created as a result of earth removal operation will be piled up in front on the open pit mine.

2.6 hectare area will be cracked as a result of a mining operation and it shall be rehabilitated by filling in all open pits with overburden removed in 1st, 2nd, 3rd, and 4th year. Also technical and biological rehabilitation will be done.

17.9% of total proceeds from the share sales is planned to be used for implementing technical fundamentals of the mining operation. Overburden removal at the deposit is about 2.6 – 3.0 meters on average and it is required to be further explored.

Siliceous sand – Company owns 3998X mining license in “Saikhan” river area. Siliceous sand will be transported to the plant through paved road by trucks and this sand is not damaged by underground water so it's more suitable for light concrete and lime production by meeting the standards through OST 21-1-72. The exploration level reserves in the A,B,C1 blocks are 2,209.9 cubic meter and are able to be used for 60 years.

Coal – is supplied by Sharyn Gol coal mine located in 75km from Darkhan city through rail road.

High pressure steam – is produced by the Darkhan-Uul province's thermal power station and transported to the plant through steam pipes.

Introduction of the infrastructure:

The plant is located in the industrial district of the Darkhan city and is independent in terms of infrastructure.

The company is well positioned to transport its products to several provinces and cities including Darkhan-Uul, Bulgan, Selenge, Orkhon, Altanbulag, Ulaanbaatar,

Sainshand and Zamyn Uud via rail or paved road. The company has following advantages:

- ✓ Connected with the central rail line with its own railroad spur.
- ✓ Connected with Darkhan city, Ulaanbaatar city as well as with millennium road through paved road.
- ✓ Connected with the power plant with 150mm high pressure steam (12-15am) pipe.
- ✓ Connected with the drinking and waste water lines of the industrial district.
- ✓ Connected with all types of communication services including internet, fax, telephone etc.

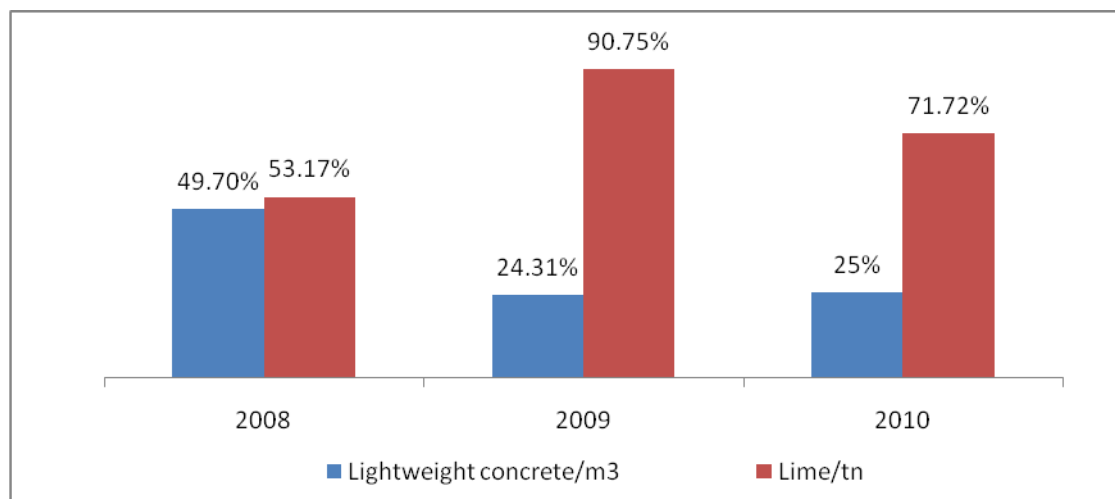
A combined infrastructure source is not necessary in order to increase the production capacity.

Production amount in the last 3 years

Products	2008	2009	2010
Lightweight concrete blocks/м3	19 880,00	9 722,10	9 998,80
Lime/тн	5 316,50	9 075,10	7 171,50

Table1 Production amount in the last 3 years

Based on an average production amount in the last 3 years the company has been



using only 30% of its total lightweight concrete producing capacity.

Picture 4 Production capacity utilization

Since 2008, the company has started to focus more on lime production than lightweight concrete block production as the construction sector growth has slowed down while the mining sector growth has remained strong.

Structure of income and expenses

Indicators	2007 %	2008 %	2009 %	2010 %
Sales	100,00	100,00	100,00	100,00
COGS	94,01	49,85	82,40	81,89
Gross profit	5,99	50,15	17,60	18,11
Operational expenses	19,14	17,48	6,76	9,44
Operational profit	-13,15	32,68	10,84	8,67
Cost of loan interest	23,42	29,39	11,75	5,10
Profit before tax	- 36,57	3,28	- 0,91	3,57
Tax	-	0,03	-	0,36
NPAT	- 67,86	0,31	- 6,05	3,21

Table 9 structure of income and expenses

1.15 FINANCIAL STATEMENTS OF LAST 4 YEARS AS WELL AS THE MOST RECENT QUARTER /Thousand MNT/

Balance

Indicators	2007	2008	2009	2010
Current Asset				
Cash, cash equivalent	685.0	245.0	705.0	4 420.0
Account receivables	61 327.0	73 279.0	29 867.0	24 666.0
Other receivables	31 521.0			
Inventory	154 571.0	910 760.0	610 505.0	873 129.0
Prepaid expenses		90 000.0	90 000.0	
Amount of current assets	248 103.0	1 074 284.0	731 077.0	902 215.0
Non-current assets				
Fixed assets	761 762.0	1 027 771.0	1 545 250.0	4 317 238.0
Accumulated depreciation	-150 718.0	-210 777.0	-400 485.0	-134 480.0
Other fixed assets		3 379.0	3 379.0	93 210.0
Accumulated depreciation				-1 350.0
Amount of non-current assets	611 044.0	820 373.0	1 148 143.0	4 274 617.0
Amount of total assets	859 147.0	1 894 657.0	1 879 220.0	5 176 833.0
Short term liabilities				
Account payables	133 219.0	97 696.0	149 280.0	286 727.0
Salary payables	6 211.0	12 604.0	-	2 294.0
Income tax payables		221.0	221.0	4 572.0
Citizen income tax payables	8 885.0	26 996.0	21 238.0	13 122.0
VAT payables	9 475.0	10 735.0	-	8 668.0
Other tax payables	8 357.0	1 449.0	449.0	9 995.0

Health, social insurance payables	25 172.0	17 615.0	-	-
Short term bank loans	441 115.0	1	1 491 526.0	1 454 250.0
		501 526.0		
Other payables	114 510.0	111 592.0	110 817.0	374 840.0
Amount of short term payables		1		
	746 944.0	780 435.0	1 773 531.0	2 154 469.0
Owners' equity				
Amount of equity capital	17 013.0	17 013.0	17 013.0	17 013.0
Reserves of revaluation	430 305.0	430 305.0	430 305.0	3 595 288.0
Accumulated profit (loss)	-335 114.0	-333 095.0	-341 629.0	-589 936.0
During balance	-198 513.0	2 019.0	-8 534.0	39 198.0
report				
Before balance	-136 601.0	-335 114.0	-333 095.0	-629 134.0
report				
Amount of owners' equity	112 203.0	114 222.0	105 688.0	3 022 364.0
Amount of debt and equity	859 147.0	1 894 657.0	1 879 220.0	5 176 833.0

Table 10 Balance sheet

Income statement

<i>Indicators</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
Main operation income				
Sales revenue	292 512.0	652 468.0	1 010 918.0	1 220 653.0
Cost of goods sold	(274 998.0)	(325 244.0)	(832 694.0)	(999 593.0)
Gross profit (loss)	17 513.0	327 224.0	178 224.0	221 059.0
Operation expenses				
Salary expenses	28 871.0	45 797.0	32 033.0	19 297.0
Social insurance expenses	5 774.0	2 764.0	3 096.0	2 277.0
Repair and service costs	2 513.0	72.0	-	8 984.0
Utility expenses		11 687.0	150.0	6 739.0
Rental costs		1 673.0	776.0	244.0
Business trip costs	2 780.0	20 060.0	833.0	1 721.0
Transportation costs		1 100.0	55.0	1 000.0
Raw material costs		4 305.0	181.0	1 788.0
Depreciation costs		54.0	13 291.0	18 194.0
Marketing costs	556.0	2 750.0	2 770.0	3 104.0
Post, communication costs	7 761.0	1 139.0	1 321.0	4 449.0
Fuel costs	4 628.0	3 952.0	7 973.0	25 072.0
Bonus, office expenses	1 412.0	525.0		1 322.0
Interest rate expenses	68 500.0	191 771.0	118 828.0	62 241.0
Other costs	1 680.0	18 146.0	5 888.0	21 076.0
Total operation expenses	124 475.0	305 793.0	187 195.0	177 506.0
Main operation profit (loss)	(106 962.0)	21 431.0	(8 970.0)	43 553.0
Sub-operation profit (loss)	(91 551.0)		633.0	-
Other		(19 187.0)	(1 069.0)	
Amount of Sub-operation profit (loss)	(91 551.0)	(19 187.0)	-436.0	-

Net profit before tax (loss)	(198 513.0)	2 244.0	(9 406.0)	43 553.0
Tax		224.0		4 355.0
Net profit after tax (loss)	(198 513.0)	2 019.0	(61 128.0)	39 198.0

Table 11 Income statement

The company's financial statements including balance sheet, income statement, ownership change statement, cash flow statement and the main accounting policies, notes and explanations starting from January 1st of 2010 until December 31st of 2010 were independently audited by accounting, auditing and asset evaluation company, "Suld Audit" LLC. According to the auditing results;

As of December 31st of 2010, "Silikat" JSC's financial statements and financial situation as well as the annual financial results, net assets, ownership changes and cash flows fully comply with the international auditing standards and local accounting regulations and instructions.

**1.16 THE LARGE SCALE TRANSACTIONS THAT ARE MADE BY THE
ISSUER COMPANY WITH OTHERS, INDEPENDENT LEGAL
CONCLUSION**

In accordance with "the regulation on listing publically offered securities, offering to primary market" that regards to the company's initial public offering, the issuer has made an agreement with "Mongol Attorney" law firm on July 7th, 2010.

After having reviewed necessary materials according to the agreement, the law firm has made an independent legal conclusion with following purposes on December 22nd, 2010:

- Whether the company's charter, regulations, and agreements and transactions that are made with other legal entities should be complied with the related laws, regulations and code of corporate governance or not.
- Whether the company's especial licenses are valid or not, whether there are any risks of getting invalid or canceled with the especial licenses or not.

Law firm conclusion

Whether the charter, the agreements, the transactions are complied with the issuer's and investors' interest, as well as the securities market law, regulations and the Financial Regulatory Commission's regulations or not:

"Silikat" JSC's charter and operating regulations are complied with the company's and investors' interests, rights as well as complied with the securities market law and the code of corporate governance.

However, the company's lender Zoos Bank became unable to execute its responsibility of providing a loan to the company according to the schedule that is referred in the loan agreement No. 8 of March 12th of 2008, which resulted the company's planned operation to disrupt, the product supply agreement with its customers to interrupt and the company to face the financial difficulties. As a result it has created condition that could impact negatively to the investors' legal interests.

Whether the especial licenses are valid or not, whether the risk of cancelation and invalidation of these licenses would create harmful condition to the operation or not:

"Silikat" JSC owns exploration and operation licenses in sand, gravel and lime stone deposits. The above 2 especial licenses are legally owned by the company and there is no reason that they would be canceled as the company is complying with all conditions and requirements of the licenses.

Whether there is any transactions that are considered as conflict of interest as well as large scale in the last 3 years and if yes whether these transactions are complying with the laws and regulations:

According to the 84th provision of the Company Law, "Silikat" JSC's loan agreement (No.8) with Zoos Bank reached on March 12th of 2008 is considered as large scale transaction.

At that time the company's total assets were 1,133,516,022 /one billion and one hundred thirty three million and five hundred sixteen thousand and twenty two MNT. /based on the company's financial statements as of the 1st quarter of 2008/

The loan agreement was based on the 3rd resolution of the company's board of directors' meeting made on February 26th of 2007. The resolution gave the right to make a loan agreement to the company's executive director Ts.Sodbileg.

According to the 76.1.16th article of 76th provision in the Company Law, a company's board of directors has a right to make large scale transactions. The company's board of directors' resolution on loan is complied with the company's charter as well as the law.

According to the 86th provision of the Company Law that refers to conflict of interest transactions, the company hasn't made any conflict of interest transactions with any legal entity in the last 3 years. /based on the company's (the board chairman and the executive director) report on shareholders' meeting, the list of transactions made with other legal entities/

Introduction of transactions of which value exceeds 25% of the company's total assets in accordance with the 84th provision of the company law:

<i>No</i>	<i>% in the total assets as of agreement</i>	<i>Description of agreement</i>	<i>Date of agreement</i>	<i>Powering resolution</i>
1.	51% /As of the 3 rd quarter of 2007 financial statements /	Loan agreement with Zoos Bank	July 2 nd of 2007	Board of directors' No. 3 resolution as of 2007/02/26
2.	106% / As of the 1 st quarter of 2008 financial statements/	Loan agreement with Zoos Bank	July 12 th of 2008	Board of directors' No. 3 resolution as of 2007/02/26
3.	11% / As of the 3 rd quarter of 2008 financial statements/	Loan agreement with Zoos Bank	July 18 th of 2008	Board of directors' No. 3 resolution as of 2007/02/26

Table2The company's large scale transactions

According to the 84th prevision of the Company Law, "Silikat" JSC's loan agreement (No.8) with Zoos Bank reached on March 12th of 2008 is considered as large scale transaction.

The agreement: The loan agreement was based on the 3rd resolution of the company's board of directors' meeting made on February 26th of 2007. The resolution gave the right to make a loan agreement to the company's executive director Ts.Sodbileg.

According to the 76.1.16th article of 76th provision in the Company Law, a company's board of directors has a right to make large scale transactions. The company's board of directors' resolution on loan is complied with the company's charter as well as the law.

Whether the agreement is conflict of interest or not: According to the 86th provision of the company law, the loan agreement is not considered as conflict of interest transaction as Zoos Bank is not conflict of interest legal entity with "Silicat" JSC.

Whether the agreement is valid or not: The loan agreements with Zoos Bank are all legally valid.

Implementation of obligations assumed under the agreement:

1. According to the loan agreement of 441,115,000 MNT which is made on July 2nd of 2007, Zoos Bank has financed total 441,115,000 MNT between July 5th, 2007 and December 3rd, 2007. As of today, the company has repaid 0.2% of the total loan and there is 440,282,996 MNT of loan outstanding.

2. According to the second loan agreement of 2,000,000,000 MNT which is made on March 12th, 2008, Zoos Bank has financed 52% of the total loan or 1,041,240,503 MNT between March 13th, 2008 and April 24th, 2008. As of now the company repaid 13.6% of the total loan and there is 900,000,000 MNT of loan outstanding.
3. According to the third loan agreement of 200,000,000 MNT which is made on July 18th, 2008, Zoos Bank has financed 200,000,000 MNT on July 28th, 2008. As of now the company has repaid 43% of the total loan and there is 113,966,672 MNT of loan outstanding.

As the Central Bank has appointed its official receiver at Zoos Bank on November 20th, 2009 and the official receiver has transferred the loan of Silikat JSC to the court the loan interest payment has officially stopped since July 26th, 2010.

1.17 EVALUATION COMPANY'S CONCLUSION ON THE ISSUER COMPANY'S ASSETS AND BUSINESS

The company's assets and business evaluation has been executed by "National Realty" LLC whose state registration number is #9011119040 and especial license of evaluation activities is #19 and the evaluation report has become available on December 12th, 2010. The asset evaluation was made as of the 2nd quarter of 2010 and the business evaluation was made as of the 3rd quarter of 2010.

Attention: the asset evaluation report was made as of the 2nd quarter of 2010 and the business evaluation report was made as of 3rd quarter of 2010!

Introduction of asset evaluation:

Purpose of asset evaluation

The purpose of evaluation was to define the present real value of the company's fixed assets including real estates and movable properties.

The asset evaluation was dedicated to the company's financial reporting as well as business evaluation. The evaluation report, calculation and result shall be used for the company's financial statements and accountings.

Evaluation methods

Real estates, equipment and vehicles were measured through cost and a trend of standard market value methods and road, site, fence, outside plumbing facilities were measured through cost (budget) method.

Summary of the company's real estates and movable properties evaluation /MNT/

No	Name of property	As of balance 2010/06/30		Renewed evaluation			
		Total amount	Remaining cost	Replacement Cost	Depreciation	Re-evaluated amount	Arranged and renewed evaluation
1	Building	376 684,93	142 035,35	4 867 803,33	1 977 662,60	2 890 140,72	2 521 554,77
2	Facility	93 781,68	74 386,26	945 504,65	532 436,87	413 067,78	342 420,91
3	Equipment	786 929,34	652 719,57	1 302 004,96	211 156,39	1 090 848,57	1 081 684,65
4	Vehicle	242 580,00	159 723,62	344 181,07	82 726,15	261 454,92	231 229,25
5	Furniture	36 618,48	27 867,85	43 098,51	11 510,56	31 587,95	31 587,95
6	Computer and spare parts	22 855,15	3 785,01	22 855,15	15 863,38	6 991,77	6 991,77
7	Sum	1 559 449,58	1 060 517,67	7 525 447,66	2 831 355,95	4 694 091,71	4 215 469,30

Table3 Summary of asset evaluation

According to "Suld Audit" auditing firm's advice which was based on the asset evaluation, the value of total assets was reported on the 3rd quarter 2010 balance sheet as 7,525,447.70 MNT by evaluating from the initial cost.

According to the Financial Regulatory Commission's advice dated on January 21st, 2011, the value of total assets was reported on the 4th quarter of 2010 balance sheet as 4,317,237,722.84MNT by reflecting the loan interest payments as well as evaluating from the remaining costs.

CORRECTED BALANCE SHEET AFTER ASSET EVALUATION

	/Thousand MNT/	
	<u>2009.12.31</u>	<u>2010.06.30</u>
ASSET		
Current assets		
Cash and cash equivalents	705,00	1 181,10
Receivables	29 866,70	48 274,90
Inventories	610 505,20	758 255,30
Prepaid payments	90 000,00	-
Amount of current assets	<u>731 076,90</u>	<u>807 711,30</u>
Non-current assets		
Fixed assets	1 545 249,50	7 525 447,70
Accumulated depreciation	- 400 485,30	- 3 309 978,40
Intangible assets	3 378,50	93 378,50
Accumulated depreciation	-	-
Investments and other assets	-	-
Amount of non-current assets	<u>1 148 142,70</u>	<u>4 308 847,80</u>
TOTAL ASSETS	<u><u>1 879 219,60</u></u>	<u><u>5 116 559,10</u></u>
LIABILITIES AND OWNERS' EQUITY		
Short term payables		
Account payable	149 280,40	213 910,90
Salary payable	-	1 752,90
Legal entity income tax payable	221,20	221,20

Personal income tax overdue income tax payables	21 237,70	13 245,20
VAT payables	-	3 708,10
Other tax payables	448,80	424,80
Health, social insurance commission payables	-	5 117,70
Short term bank loan	1 491 526,30	1 454 249,70
Bank loan payment	-	264 023,90
Other payables	110 816,80	110 816,80
Amount of short term payables	1 773 531,20	2 067 471,20
Long term payables		
Long term payables	-	-
Amount of long term payables	-	-
Amount of total liabilities	1 773 531,20	2 067 471,20
Owners' equity		
Equity capital	17 012,60	17 012,60
Reserves of revaluation	430 305,10	3 595 287,80
Accumulated results	- 341 629,30	- 563 212,50
Amount of equity	105 688,40	3 049 087,90
LIABILITIES AND OWNERS' EQUITY	1 879 219,60	5 116 559,10

Table4Corrected balance sheet after asset evaluation

Introduction of business evaluation:

As "Silikat" JSC is issuing more shares through initial public offering. "National Realty" LLC has independently made the company's business evaluation or valuation of per share in accordance with the international evaluation standard, methods and trends.

The business evaluation was based on:

- Cost trend method
- Capitalization of income trend
- Market measuring trend

The valuation company gave 60% of importance to the business evaluation that is executed through discounted future cash flow method after studying the evaluation method choice, the results, the advantages and the disadvantages depending on a purpose of the business evaluation. When the company chooses cost trend method to value a business, it gave 30% of importance to the evaluation that is executed through a net asset method as the given business tends to continue in the future without having restructured or failed. It also gave 10% of importance to the sector coefficient method of a market comparison trend depending on deficient information in the market, reliability and reality of the available information and inactivity of the given sector companies in the capital market.

<i>Evaluation Method</i>	<i>2010/09/30 /Thous.MNT/</i>	<i>Importance</i>	<i>Amount calculated</i>
Net asset method	3 321 283,1	30%	996 384,93

Income trend method	9 968 453,0	60%	5 981 071,78
Market comparison	2 005 591,5	10%	200 559,15
Sum	15 295 327,6	100%	7 178 015,9

Table 5 Business evaluation

The issuer company's business is valued at 7,178,015,900 MNT (Seven billion and one hundred seventy eight and fifteen thousand and nine hundred) on average and if it's compared to 170,126 shares outstanding, a share price is valued at 42,200 MNT.

1.18 LEGAL BASIS OF ISSUING SECURITIES IN ORDER TO IMPLEMENT THE PROJECT

The issuer owns the exploration and the mining licenses in the deposit area of sand and lime stone which are the key raw materials for the company's operation.

- The issuer was given a permission to use mineral in "Tsogt" (name of the place) of Khongor Soum, Darkhan under the #14949A especial license on June 23rd of 2009. The maturity of the especial is 30 years and the 2nd year license payment has made on March 31st of 2010.
- The issuer also owns an especial license to carry out a mineral exploration on 31 hectare land in Saikhan area of Sakhan Soum, Selenge Province. The especial license was transferred from "Darsilbet" LLC in accordance with the resolution #966 of Geology and Mining Cadastre Division chairman in 2008. Initially the especial license was granted until December 26th, 2009 and the Geology and Mining Cadastre Division has extended the license for 1 year until December 26th, 2010. According to the 21.1.4th article of 21st provision of the Law on Minerals, an exploration especial license is allowed to be extended twice for 3 years on each occasion. Therefore, if the company completes and submits the necessary materials in accordance with the 22.1th article of 22nd provision of the law on minerals, the exploration license is possible to be extended.

As the company owns abovementioned licenses legally and fully complies with the terms and the requirements of those licenses, there is not any risk that the licenses would be terminated or canceled.

The projected plant that will be built by the initial public offering proceeds is complete combustion and fully equipped by modern technologies which are friendly with the environment including an especial ash sucking equipment.

The issuer's operations are regulated under following laws:

- Law on vehicles taxation
- Law on legal entity income tax
- Law on minerals
- Law on protecting natural environment
- Law on construction
- Law on protecting consumer rights
- Law on customs
- Law on geodesy and cartography
- Law on insurance
- Company law
- Law on social insurance
- Law on accounting
- Securities market law
- Law on labor unions' rights
- Law on real estate income tax
- Law on labor
- Law on standardization
- Tax law
- Law on safety of rail transportation
- Law on energy

1.19 TWO. THE ISSUE

2.1 Introduction Of The Offering

Type of share: Common

Nominal value: 100 MNT

Number of shares offered to the public: 16 222 300

The size of the offering: 35% of the company

The offer price: 225 MNT

IPO trading procedure: All of the shares will be offered to public through Mongolia Stock Exchange and a share price is determined based on book building process.

Firm commitment agreement: The underwriter has entered into a firm commitment agreement with the issuer ensuring that the underwriter will buy 50% of the offer or 8,111,150 shares at the offer price.

2.2 Decision To Offer Shares To The Public

In accordance with 34th, 39th, 63rd, and 84th provisions of Company Law of Mongolia and 6th provision of the company charter, 5th resolution of the company's shareholders' extraordinary general meeting dated on August 16th, 2010, 3rd resolution of the company's board of directors' meeting dated on April 7th, 2011, and

2nd resolution of the company's shareholders' annual general meeting dated on May 1st, 2011, "Silikat" JSC is issuing additional shares with a purpose of raising new capital.

Any shareholder who hasn't attended the company's extraordinary shareholders' meeting on August 16th, 2010 and annual general meeting on May 1st, 2011 which discussed the matters regarding the capital increase, or has rejected the decision of increasing the company's capital during abovementioned meetings has right to require the issuer company to purchase the shareholders shares within 30 days the decision in accordance with the 54th and 55th provisions of the company law.

2.3 Shareholder rights

A holder of a common share in a company enjoys following rights in accordance with the Company Laws well as the company's charter.

1. Any person/legal entity that purchases the company's common or preferred shares will be regarded as the company's shareholder.
2. Common shareholder will enjoy following rights:
 - 1/ Attend the company's shareholders meeting announced by an authorized person/entity, and to vote for meeting decisions based on the amount of holding shares.
 - 2/ Receive dividends on the shares that are held once the company's shareholders decided to distribute dividends.
 - 3/ Receive share from a sale of the company's remaining assets after repayment of the company's all debts and liabilities if the company is bankrupt.
 - 4/ Exercise preemptive right when the company issues additional shares or convertible notes. This right is provided by the company's board of directors in accordance with the law.
3. Any shareholder who did not attend the company's shareholders' meeting, or rejected to vote on following decisions has right to require the company to purchase his/her shares:
 - 1/ Merge, split, or restructuring into a private company
 - 2/ Large scale transactions that are bigger than 25% of the company's assets.
 - 3/ Renewing or newly establishing the company's charter including contents that reduce shareholders rights.
4. If one or a group of affiliated shareholders acquire more than 75% of the company's total outstanding shares, the remaining shareholders would have a right to require the company to purchase their shares at specific price that would be set by the company's board of directors based on independent evaluation company's suggestion. The price shall not be lower than the independent evaluation company's suggested price.

5. Any shareholder owning more than 5% of the company's total outstanding shares has a right to make proposal on the company's shareholders' meeting agenda and nominate a person to the company's board of directors.
6. If one or a group of affiliated shareholders acquire more than 5% of the company's total outstanding shares, the shareholder(s) is obligated to notify the company of his/her ownership within 30 days since the trade date. This notification will ensure the shareholder(s)' right to make proposal to the shareholders' meeting agenda or nominate a person to the company's board of directors.
7. Any shareholder has a right to be informed of documents that are referred in the 66th, 66.4th, 96th, 96.1st, and 96.2nd provisions of the company law.
8. One or a group of affiliated shareholders owning more than 10% of the company's total outstanding shares has a right to appoint an auditing firm to review the company's financial operations.
9. The company shall not take responsibility on behalf of its shareholders.
10. A shareholder shall not take responsibility that belongs to the company and a shareholder's risk is limited to amount of his/her holding shares.
11. A shareholder's ownership in the company represented by his/her holding shares is separated from the shareholder's own assets.

2.4 PREVIOUSLY ISSUED SECURITIES INFORMATION

The company was established in 1992 with 170,126 shares each has a nominal value of MNT100 and 17,012,600 of share capital.

Shareholders information

<i>Ownership %</i>	<i># of shareholders</i>	<i># of shares</i>	<i>Percentage</i>
Shareholders owning over 5 percent	5 shareholders	166,573 shares	97,9%
Shareholders owning less than 5 percent	19 shareholders	3,553 shares	2,1%

Table 6 Shareholders information

Shares trading in the past 3 years

# of shares traded	109
Proportion to total outstanding shares	0,06%
Value	60 400
Weighted average price	600
Highest price	800
Lowest price	115
Closing price /as of 2010.12.15/	800

Table 7 Shares trading

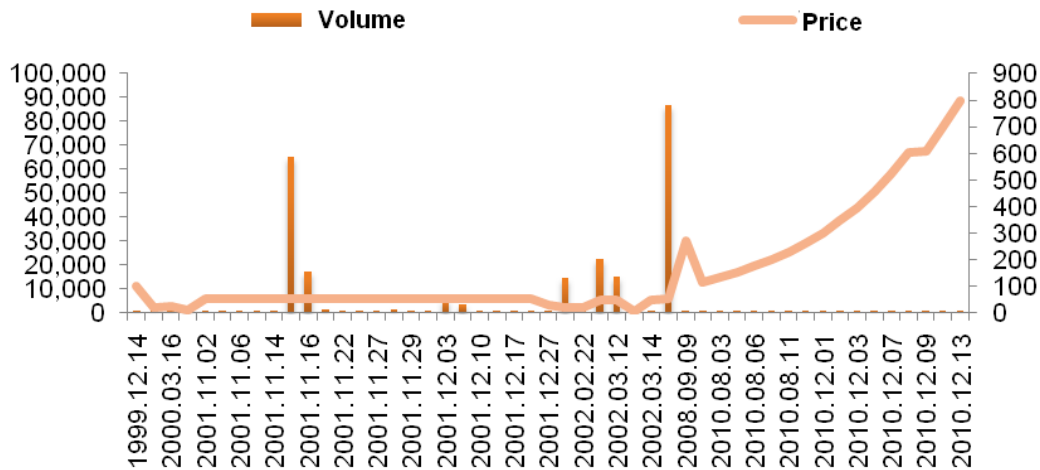


Figure 5 Volume and share price

The share price was revised as the company has been valued incorrectly due to a majority of the shares were concentrated in a few shareholders which resulted the lack of shares trading activity.

2.5 REVISION OF THE SHARE PRICE

Rationale for the share price revision

The issuer was listed on the Mongolian Stock Exchange in 1992 and current stock concentration ratio is 98 percent. That has been blocking the share price movement.

The amount of owner’s equity has reached to MNT3 billion and as a result of comparison with total outstanding shares, it’s necessary to revise the market price. Current market price is considered as unreal because the book value per share is extremely higher than the market price.

Estimation

CURRENT SITUATION	
Amount of owner’s equity	3,022,363,935.35
Total outstanding shares	170,126
Nominal value	17,765
Book value per share	17,765

Table 8 Estimation for revision of the share price

Book value was set based on the net equity, which is equal to total asset minus total liabilities.

2.6 PROJECT OF STOCK SPLIT

Rationale

In accordance with the Article 52 and 63 of Company law of Mongolia, the Stock split project was approved by the majority of shareholders who have a right to vote.

Main condition for the stock split

The issuer will meet the condition to split stock as they has an asset valuation done, make an estimation based on that valuation, and shareholders approve a decision of the stock split at the shareholders meeting. As the decision is delivered, the Financial Regulatory Commission will make a change on registration of securities. And then the registration of securities will be amended by the Securities Clearing House and Central Depository LLC and the Mongolia Stock Exchange JSC.

Objective

Since the current management team purchased 98 percent of the company's outstanding shares in 2004, only 109 shares were traded in 6 years. The main condition for being traded freely on the market and valued by the investors was locked as a result of high rate of share concentration.

As the stock split is completed, a basic condition to slow stock concentration and be valued by the investors will be performed in accordance with the market principles.

Decision

According to the resolution number 4, August 16, 2010 and resolution number 1, May 1, 2011 approved through the Extraordinary General Meeting of shareholders, the company has decided to split 1 share to 177 for making the stock trading more active.

Significances

Advantages and significances for the shareholders and investors:

- ✓ Assets owned by them will be more liquid
- ✓ As the real value of company is determined as a result of active trading, value of shareholders equity will be increased
- ✓ Investors' equity would be more valuable as the corporate governance is improved and an independent public control is generated.
- ✓ As the company expands its operation by raising capital through splitting shares, a condition to make profit will be performed and then they would pay dividend for investors.

Advantages and significances for the company

- ✓ The real value of the company will be determined
- ✓ Additional shares will be issued by order registration after a stock split and that will afford an opportunity for investors to determine actual value of the company and to enhance company value.
- ✓ Based on the market valuation of the company productivity, an opportunity to raise additional capital and expand its capacity will be allowed.
- ✓ As the additional shares are issued to the market,
- ✓ Issuing additional shares to the market will reduce stock concentration, generate an independent public control, renew the structure of Board of Directors, and corporate governance.
- ✓ The company will run a business with greater financial capability as they settle liabilities with the capital raised through stock split.
- ✓ The company will supply high quality products with low price and consolidate their position in the market as they decrease productivity cost by renovating technologies.

Estimation

CURRENT SITUATION	
Amount of owner's equity	3 022 363 932
Total outstanding shares	170 126
Price per share /book value/	17 765
Revise price per share	100
Stock split calculation	177=1
After the stock split	
Total outstanding shares	30`112`302
Nominal value	100
Market capitalization	3 011 230 200

Table 9 Stock split estimation

2.8 PRIMARY MARKET TRADING METHOD AND PLANNING

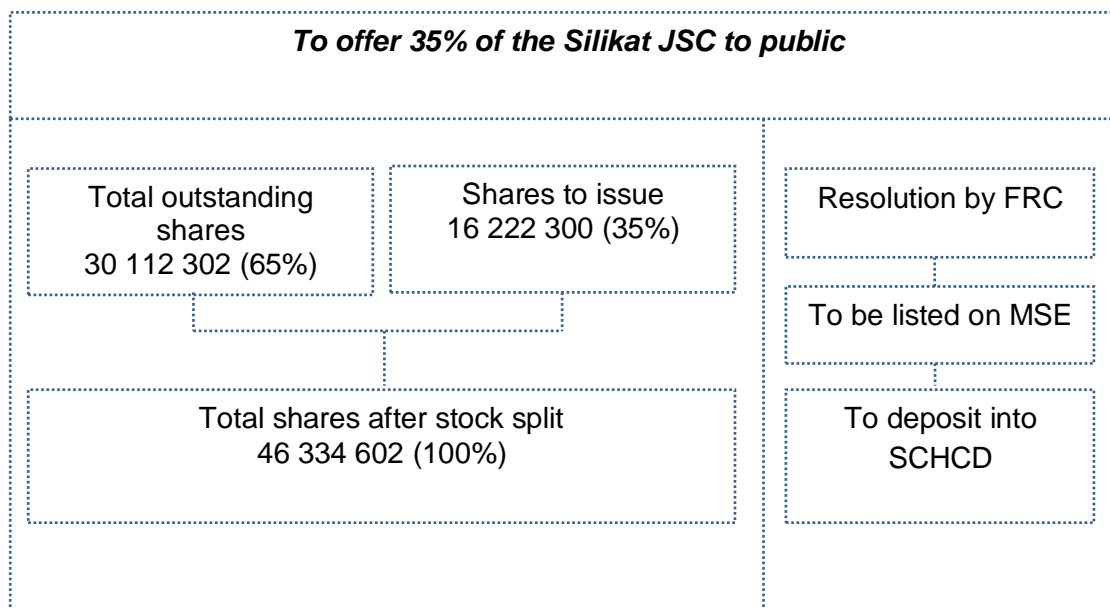


Figure 6 Method of Primary market trading

Additional shares will be issued to the primary market through combined method and according to the decision made at the annual general meeting of shareholders on August 16, 2010, preemptive right is unavailable.

The underwriter will buy 50 percent of the additional shares and remaining 50 percent of the shares will be issued to the primary market by order registration in conformity with the article 4.6.3 and 4.12 of the “Regulation on registering of publicly offered shares, its issuance in the primary market, and trading of the shares” adopted by the Financial Regulatory Commission.



Figure 7 Stock order

In order to offer additional shares to the market, the issuer will initially distribute shares to the underwriter and after that the remaining shares will be distributed to

investors in accordance with the orders, which are placed early and possible to be executed.

The planning of primary market offering by order registration

The price of the shares, which will offered in the primary market by order registration, will be set jointly by the securities issuer and the underwriter based on the weighted average price of subscription, a possible price to raise planned capital, and an appropriate price to investors. After a price and number of shares, which will be offered in primary market, is approved, rest of the shares, which are not distributed to public, will be registered as issued, but not active shares.

	1 st week	2 nd week	3 rd week	4 th week	5 th week	6 th week	7 th week
Regulation by FRC and securities registration by MSE	Precondition to offer securities to the public						
To introduce securities to public		To provide information through public media, websites of brokerage firms, and e-mail					
To receive orders and to close subscription				Additional shares will be subscribed at minimum price of 225 MNT for 5 business days and subscription period will close on last working day of the week.			
Results of share					The securities issuer and the underwriter		

subscription and to set a price					will jointly set a primary market price within 3 business days based on the market demand.		
To get trading permission					To deliver a request to trade additional shares in primary market to FRC within 2 business days		
Primary market trading						To begin stock trading through MSE within 2 business days after a permission is granted by FRC	
To deliver a report to FRC						To deliver a trading report to the FRC and an announcement of shareholders' meeting should be enclosed	
To hold a shareholders' meeting							Shareholders' meeting will be held 30 days after its announcement

Table 20 Schedule planning of stock offering in the primary market

1. Stock trading will be regulated under the “Regulation on registering of publicly offered shares, its issuance in the primary market, and trading of the shares” adopted by FRC and “Securities trading in the primary market rule” by Mongolian stock exchange.

The additional shares offered by order registration will be subscribed through the brokerage firms within 5 business days following the end of date of securities introduction to public within 10 business days. Stock subscription information will be delivered to the brokerage firms more than 5 days before the date of subscription and provided to the public more than 10 times via public media.

2. Minimum price of the new issuance was set at MNT225 **based in accordance** with the agreement between the securities issuer and the underwriter.

3. **The price to be offered to public will be set based stock subscription and if your order price is lower than the market price, that won't be executed. If total size of orders is more than publicly offered shares, shares will be distributed proportionally.**

4. After the additional share issuance to raise necessary capital is successfully completed, secondary market trading will be started under the Mongolia Stock Exchange rules and then the investors will be acquired a right to trade shares in the market.

How to buy shares?

The investors need to send a stock order to buy certain number of shares at minimum price of 225 MNT per share within 5 business days following the date after 2 weeks of Securities prospectus release or an order which doesn't indicate the bidding price and size, but instructs total amount of the order will be acceptable. This sort of order, without size and price, expresses the investors' opinion that they agree to buy at the market price.

The order will be placed through the brokerage firms. The investors must wire cash more than 30 percent of total amount of the order to their securities account as a pledge and the rest of cash to purchase shares must be placed completely before 24 hours of deadline for order registration.

The cash pledge will be frozen till the order is executed.

An order will be considered as valid as the form is filled correctly and completely, cash is credited to the securities account residing in SCHCD, and also the order is registered by the Organization for securities trading.

The stock order which is sent after trading hours /at the latest day of subscription/ or after 13:00 pm of the deadline day is unacceptable.

Within 3 business days following the date of share subscription deadline, primary market price will be set and the shares will be distributed to investors at the price. Even though, the shares won't be placed to the subscriber securities account.

Who is able to buy the stock?

The stock will be traded through the Mongolia Stock Exchange and if you intends to purchase the shares, you must have a securities account in a brokerage firm.

There are two types of securities account, individual and corporate, but there is no difference between domestic and foreign investors.

Please contact brokerage firms in order to get information opening an securities account.

Taxation and commission

You will pay certain rate of commission, which is set when you open an account, for participating in stock trading. For example: if the commission rate is set at 3 percent and you buy MNT1,000,000 worth of shares through your account, you will pay MNT30,000 worth of commission for the trade.

Therefore, the cash more than the sum amount of shares to buy and commission must be credited to your securities account.

To impose an income tax for the dividend paid to individuals:

In accordance with "Private person income tax law", the paragraph 30.2 of Article 30 indicate that "the taxes on the revenues mentioned in the paragraphs 13.1.3 and 13.1.4 of this law will be calculated and paid from January 01 of 2013". The paragraph 13.1.3 indicates that "dividend revenue" and the paragraph 13.1.4 indicates "interest income". Therefore any person who earns dividend revenue does not need to pay income tax until January 01 of 2013.

To impose an income tax on dividend paid to legal entities:

The paragraph 16.3 of the "Corporate income tax law" indicates that "the following incomes will be separately determined as taxable income", and the paragraph 16.3.1 indicates that "dividend revenue". The paragraph 17.2 indicates that "The rates of taxes indicated in this paragraph will be defined as follow", and the paragraph 17.2.1 indicates that "the tax rate of dividend revenue will be calculated by 10 percent". Therefore the company which has the dividend revenue should be calculate 10 percent of tax and declare this revenue in the income tax statement

To impose income tax on the sale of common stock:

The taxable income on the sale of common stock and other securities will be calculated by the difference between the income from the sales and the sum of cost for the purchase and commission paid both buy and sell side.

Individuals and corporate will pay 10 percent of income tax for the income from stock sales.

Foreign exchange rate /Mongolian togrog/

The stock will be traded with national currency-togrog /MNT/ through the Mongolia Stock Exchange. The currency rate will be set as of a given date. Commercial banks renew the FX rate against MNT every day.

Please follow the links below to view Mongolian largest commercial bank's FX rates:

Golomt bank: www.golomtbank.com

Khan bank: www.khanbank.com

State bank: www.statebank.mn

Trade and Development bank: www.tdbm.mn

Savings bank: www.savingsbank.mn

How to credit cash to buy shares?

The investor needs to credit cash more than a sum amount of shares and commission.

A wire transfer should be made through the Securities Clearing House and Central Depository's bank account.

You can transfer money to the securities account, wherever you are. Please be aware that you must write securities account information as a payment details when you wire cash.

Bank account information for “Securities Clearing House and Central Depository” LLC

Beneficiary’s name: SCH&CD LLC

Beneficiary’s Bank: Golomt bank
Beneficiary’s account number: 1102017223
SWIFT code: GLMTMNUB

Beneficiary’s Bank: Khan bank
Beneficiary’s account number: 5082007254
SWIFT code: AGMOMNUB

Beneficiary’s Bank: State bank
Beneficiary’s account number: 3413000658
SWIFT code: STBMMNUB

Beneficiary’s Bank: Trade and Development bank
Beneficiary’s account number: 499138239
SWIFT code: TDBMMNUB

Beneficiary’s Bank: Savings bank
Beneficiary’s account number: 10000018669
SWIFT code: SVBMMNUB

2.9 Shares segregation and lock-up

The shares of Silikat JSC held by the project initiator or the controlling block owners and related parties will be locked-up for one year since the day of its first trading.

2.10 BRIEF INTRODUCTION OF THE RAISED CAPITAL EXPENDITURE PROJECT AND ECONOMIC EFFECTIVENESS ESTIMATION

Expenditure of capital raised by issuing additional shares

<i>Number of shares to be issued</i>	16 222 300
<i>Minimum price</i>	225
<i>Planned capital increase</i>	3`650`000`000

Table 21 Capital expenditure

Capital to be raised by issuing shares to public will be spent as follows:

<i>Expenditure</i>	<i>Amount</i>	<i>Percent</i>
1. To settle liabilities	1 436 210 000	39,4%
2. To implement the plan of limestone mining operation	653 944 000	17,9%
3. Technology renovation of lime production	1 267 846 000	34,7%
4. Financing cost	292 000 000	8,0%
TOTAL AMOUNT	3 650 000 000	100%

Table 22 Capital expenditure

- 39.3 percent of the raised capital or MNT 1,436,210,000 will be spent for repayment of the loan granted by Zoos bank for the operational extension. Settling liabilities by the additional funding has the same meaning as you are buying a business already established.
- The company has planned to spend 34.7 percent of the raised capital or MNT 1,267,846,000 for renovation of lime production plant.
- MNT 653,946,000 or 17.9 percent of raised capital will be spent for the limestone mining operation, such as buying of machinery and equipments, blasting overburden, as well for doing feasibility study.

Time-line of financing with raised capital

Day	30 days	60 days	90 days	120 days	150 days	180 days
Loan repayment						
	500,000,000.00	500,000,000.00	436,210,000.00			
Financing cost			292,000,000.00			
To order facilities and its payment	200,000,000.00	226,800,000.00				
Receipt of the facilities		152,097,703.00				
Construction work		25,000,000.00			400,000,000.00	
Transporting facilities			77,400,000.00			
Customs			70,000,000.00			
Installation cost					73,788,297.00	
Testing						42,760,000.00
Bulldozer, Mining bucket, and dump	463,750,000.00					
Limestone kibbler, Sieve, Bunker,	101,696,000.00					
Installation				44,500,000.00		
Overburden blasting and					44,000,000.00	
TOTAL AMOUNT	3 650 002 000,00					

Table 23 Operational plan

1. Reason for the debt creation and its explanation on the financial statements

According to the business plan, the stock issuer was granted a loan by Zoos bank for the renovation of two plants and building an extension between 2007 & 2008 and as of 2010, the company had a credit balance of MNT1.45 billion. Loan details are as follows:

<i>Date</i>	<i>Creditor</i>	<i>Loan size</i>	<i>Payment</i>	<i>Balance</i>
07.07.05	Zoos bank	441 115 000,00	832 003,43	440 282 996,57
08.03.13	Zoos bank	1 041 240 503,39	141 240 503,39	900 000 000,00
08.07.18	Zoos bank	200 000 000,00	86 033 327,01	113 966 672,99
Total				1 454 249 669,56

Table 24 Loan details

1. On July 02, 2007, the loan agreement number 21 to grant MNT 441,115,000 for 24 months and at the interest of 1.7% was signed between director A.Enkhchimeg and economist Ch.Munkhbayar, representing the branch number 102 of Zoos bank, and executive director of Silikat JSC Ts.Sodbileg for the renovation of technology in light concrete block industry and plant park.

As the company upgraded light concrete block producing facilities with the capital raised by loan in accordance with the agreement, the plant was completely mechanized and the plant park was completely renovated.

2. As a first stage of the project was successfully implemented, the 34 months of maturity loan agreement, number 08, for granting MNT2 billion was conducted on March 12, 2008. Interest rate was set at 1.5 percent.

In accordance with the loan agreement number 08, total of MNT900 million were granted from March, 2008 to April, 2008. Even though, Zoos bank stopped granting loan due to the bank failed to run operation. As the borrower defaulted its obligation, Silikat JSC hasn't implemented the project completely.

3. As the second stage of the loan granting was failed, the company faced a financial problem and then they signed on a agreement number 16 for getting short-term loan at the interest of 2.5 percent on July 18, 2008.

In conformity of the Order number 650 of the Bank of Mongolia made on November 20, 2009, Zoos bank stopped its operation and a plenipotentiary was appointed by the Central bank. As the loan issue of Silikat JSC was committed to the court by the plenipotentiary on July 26, 2010, the accrual of interest was suspended.

Loan expenditures

Loan expenditures of Silikat JSC are as follows:

1. Expansion of the light concrete blocks production
2. To install equipments at quarry for the lime production.
3. The company followed a plan to improve lime production technologies and assembly line equipments.

Even though, technology hasn't been renovated successfully yet as the Zoos bank stopped loan granting. The capital raised by the loan was spent for as follows:

- In 2008, light concrete blocks production capacity was increased by 80 percent, 4 furnaces of quicklime production were carried out capital repair, and additional equipments for the furnaces were installed.
- In 2009, the company installed crushing grading equipments.

The company's financial reports for past three years, audited financial statements as of 2010, Loan Information Fund reference by Central bank of Mongolia, and Debt service fund statement are reflected in the Annexes.

Loan expenditures details:

<i>Date the loan was granted</i>	<i>July, 2007</i>		<i>March 2008</i>		<i>July 2008</i>		<i>Total amount of the raised capital</i>	<i>Proportion of the capital to total amount of loan</i>
Loan expenditures	Amount	Proportion to loan	Amount	Proportion to loan	Amount	Proportion to loan		
1 Capacity extension of light concrete block production	261,343,846	59.20%	162,910,000	14.7%	2,454,545	1.2%	426,708,391	24.3%
2 To install equipments at quarry for limestone mining operation	143,876,000	32.59%	672,776,186	60.6%			816,652,186	46.6%
3 To improve technologies of lime production and assembly line equipments	34,074,000	7.72%	135,683,995	12.2%	199,829,763	98.8%	369,587,758	21.1%
4 Office furniture	2,175,200	0.49%	49,095,380	4.4%			51,270,580	2.9%
5 Plant operating cost			89,534,439	8.1%			89,534,439	5.1%
Total amount	441,469,046	100%	1,110,000,000	100%	202,284,308	100%	1,753,753,354	100.0%

Table 25 Loan expenditures

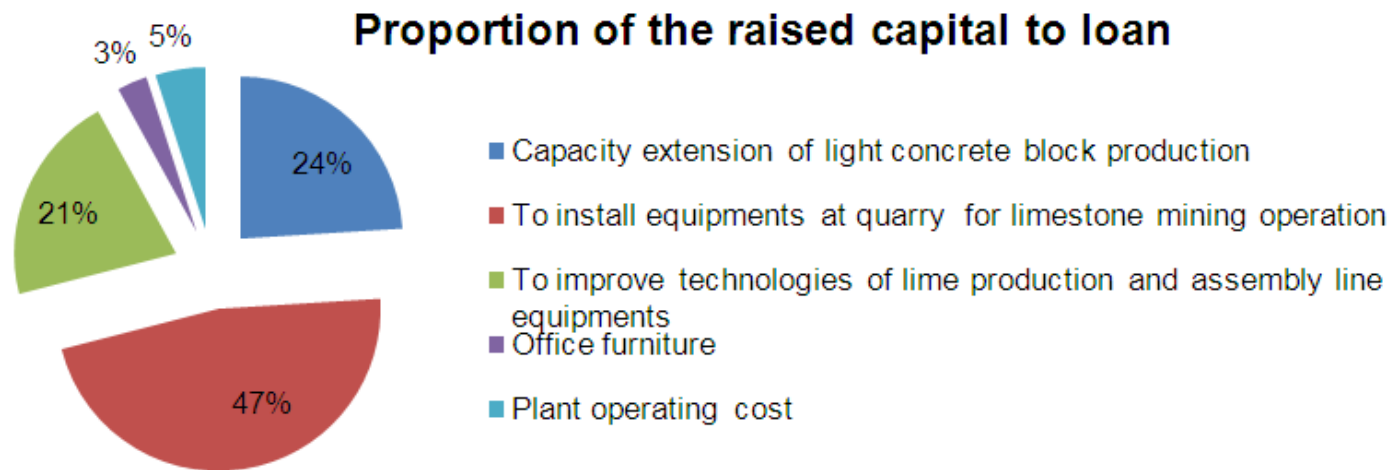


Figure 8 Investment breakdown

2. To implement a plan to mine limestone

Silikat JSC will extract limestone, which is the main raw material used for the production, in deposit number 5 named Tsogt and located in Khongor soum, Darkhan-Uul province.

Special license number of the deposit is 14949A and its area is 24,9 hectares. Limestone reserve is estimated at 1.2 million tons as the company conducted an exploration in one fourth of the territory. The feasibility study was prepared for running an operation between 2010 and 2014 based on estimation to produce 86,000 tons of limestone in a year.

CAPITAL EXPENDITURE ESTIMATION FOR THE MINERAL DEPOSIT

	<i>Number</i>	<i>Capacity</i>	<i>Per price</i>	<i>Per price in CNY</i>	<i>Amount</i>	<i>Total amount</i>
Bulldozer	1		\$ 200 000		250 000 000	
Machinery	2		\$ 52 000		130 000 000	
Mining bucket	1		\$ 67 000		83 750 000	463 750 000
Limestone kibbler	1			100 000	19 600 000	
Sieve	1			34 000	6 664 000	
Conveyor	3	30m x 80cm		54 000	31 752 000	
Cone kibbler	1			80 000	15 680 000	
Bunker	2	100m3			28 000 000	101 696 000
Installation					12 000 000	
Concrete mortar		100m3			25 000 000	
Steel framework		26 tons				
Salary Sub materials					2 500 000	
Earth work		100m3			5 000 000	44 500 000
Mining operation						
Blasting					10 000 000	
Overburden					14 000 000	
Feasibility study					20 000 000	44 000 000
TOTAL AMOUNT					653 946 000	653 946 000

Table 26 Capital expenditure estimation

The raised capital will be spent on certain purposes, such as 13 percent is for storage buildings, 16 percent is for transportation, technique, chairs, and desks as an administrative expenses, 23 percent is for overburden techniques, 45 percent is for ore extraction techniques, and remaining 3 percent is for an electrical power generator.

PRODUCT COST

		/by thousand MNT/				
<i>Nº</i>	<i>Details</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
1	Salary	54,350	130,440	130,440	130,440	130,440
	Social Insurance					16,957.2
2	Tax	7,065.50	16,957.20	16,957.20	16,957.20	0
3	Repairs and services	24,256.90	41,025.30	42,639.30	42,437.50	44,782.6
				106,598.3	106,093.7	0
4	Petrol and fuel	60,642.40	102,570.80	0	0	111,956.40
						16,793.5
5	Lubricants	9,096.40	15,385.60	15,989.70	15,914.00	0
6	Labor safety	6,711	6,711	6,711	6,711	6,711
7	Economic cost	2,325	5,580	5,580	5,580	5,580
8	Wheels and tires cost	550	1,100	1,100	1,100	1,100
9	Stationary cost	750	1,800	1,800	1,800	1,800
	Restoring the natural environment		22,500	22,500	22,500	22,700
11	Exploration			37,500		47,108.6
12	Depreciation	19,628.50	47,108.60	47,108.60	47,108.60	0
						12,763.1
13	Electricity	5,026.20	12,763.10	12,763.10	12,763.10	0
						28,515.5
14	Drilling work	17,013.30	31,268.10	31,268.10	31,268.10	0
						18,267.8
15	Blasting	18,513.00	30,392.20	18,462.00	20,344.70	0
	Total operational cost	225,928	465,605	497,418	461,018	465,475
	Product size /by thousand tons/	41	86	86	86	86
	COST PER TON	5510	5,414	5,783	5,360	5,412

Table 27 Product cost

Fifth limestone deposit feasibility study is expected to take 4.5 years and during the period 20,529 cubic meters of overburden will be hauled and 142,931 cubic meters of ore will be produced. Prime cost of 86 thousand tons of limestone production in a year is MNT 5,110, so that's 46 percent cheaper than a ton of limestone, which is traded around MNT 9500 at the market.

In other words, Silikat JSC will be able to buy the main raw materials at 46 percent cheaper than the market value as they put the fifth limestone deposit into operation with MNT 653.9 million.

3. Technology renovation of lime production

The company will complete technical renovation thus enabling the plant to produce yearly 33,400 tons of lime.

RATIONALE FOR THE TECHNOLOGICAL RENOVATION AND PRODUCTION EXTENSION

Based on the industrial infrastructure, an advanced technology which produces high quality, low cost, and high competitiveness of products needed to be introduced for the Mongolian lime production sector.

As the lime production plant is put into operation:

- 65-75 percent of the main raw materials coal and limestone is used for the lime production, but 100 percent of coal and 90 percent of the limestone will be used for the production.
- As the prime cost is decreased and the product quality is improved, company competitiveness will be upgraded.
- Environment friendly products will be produced and that will reduce the carbonic acid.
- Lime maintains international standards
- As the company produces high quality and low cost of lime, there will be an improvement on the light concrete blocks and its production cost will be decreased.
- Limestone mining quarry machineries capacity will be increased
- Plant will supply products at full capacity
- The company will not only sell products in the domestic market but also export to the international market.

One of the Mongolian largest lime producers Silikat JSC, which is located in industrial area of Darkhan Uul province which was named as an industrial park in National Development Program of Mongolia till 2020, is well known as a high quality of products to public.

Currently, 90 percent of Mongolian lime demand is supplied by the domestic producers and remaining 10 percent of high quality lime is supplied by China. Even though, production facilities of the domestic producers don't meet customer needs.

Government programs are available to support our target market, such as a public housing program, development for the mining sector, industrial complex, metallurgical plants, refineries etc... As the project is implemented, the company will be a leading producer in the market and high quality of products meeting all requirements will be produced through the plant.

Market trend

Several projects are drafted as the New Construction Program was approved by the resolution number 36 of Mongolian government on June 25, 2010. The projects are as follows: "100000 housing units program", "Production of building materials project", "A project to reduce fumes in Ulaanbaatar", "Rural Development project"

The projects will be financed through the following stages:

<i>2010 – 2012 First stage</i>	<i>8,8 trillion MNT</i>
<i>2013 – 2016 Next state</i>	<i>9,4 trillion MNT</i>

Mining sector development: there were 29.6 percent of increase in processing sector and 42.6 percent of increase in mining sectors.

Market growth gives the opportunity to expand capacity and to learn about beneficial activities. Hereinafter, demand for our product is expected to increase, so the company will pursue a plan to expand capacity.

Main consumers of lime

<i>Consumer</i>	<i>Demand in central area, by ton</i>	<i>Current supply</i>	<i>Further task</i>
Erdenet industry	40 000		10 000
Boroo Gold	11 000	6 000	11 000
Darkhan metallurgical plant	8 000		8 000
Leather processing factories	6 000	2 000	4 400

Khungun Beton JSC	5 000		2 000
Silikat JSC	5 000	1 000	8 000
Ulaanbaatar Khungun Beton	5 000		
Uliastai	5 000		
Yarmag	3 000		
Auto	3 000		
Hutul	3 000		
Total	104 000		43 400

Table 28 Main consumers of lime

The stock issuer now produces 9,000 tons of lime or 8.6 percent of domestic needs in a year. The company runs an operation at 30 percent of its full capacity, so they have full possibility to enhance its production yield and sales.

Lime

As the processed lime is used as the main raw material for producing building materials and enriching uranium, zinc, nonferrous metals, and gold, it is considered a product of strategic importance.

Chemical composition of whole lime mined at our deposit between 2008 and 2009 is as follow:

Details	Measurement	Indicators		
		S-1	S-2	S-3
Volume contained /CaO+MgO/	%	63,84	82,88	75,6
CO2	%	2,68	0,78	1,16
Temperature of precipitation	Celsius	38,0	52,0	55,0
Precipitation term	min	7,0	7,0	5,0
Size on the hydration of lime	%	0,45	0,93	0,87
Size of MgO-ийн	%	0,96	1,34	0,38
Size of non-precipitation	%	1,85	0,95	1,08

Table 29 Chemical composition of whole lime mined at the deposit

Record of samples collected: S-1 Area-1, S-2 Area-2, S-3 Area-3

Chemical composition of limestone, which is planned to be produced in 2010-2015

Sample	Dioxide content on the carbonate, %	Contents of
---------------	--	--------------------

number	CaO	MgO	Combustion reduction	Other mixtures	major minerals
Tso-1	53,48	0,38	42,55	3,59	CaCO ₃ -95,50
Tso-2	54,04	0,19	42,79	2,98	CaCO ₃ -96,50
Tso-3	53,20	0,19	41,97	4,64	CaCO ₃ -96,00
Tso-4	53,20	0,58	42,19	4,03	CaCO ₃ -95,00

Table 30 Chemical composition of limestone, which is planned to be produced

Record of samples collected Tso number of drill.

The chemical composition of the deposit meets all the requirements of iron ore beneficiation in mining sector. As the stock issuance for raising capital is successfully completed, the production capacity is expected to increase 3.3 times and the company will supply high quality of products. Quality indicators are shown below:

CaO %	MgO %	Уусаагүй үлдэгдэл %
90-95	0-2	0-2

Table 10 Product quality

As the result of project high capacity of plant will be established in Mongolia. Lime combustion kiln system means that calcium carbonate decomposes to calcium oxide and carbonic acid. Main indicator of the lime production is combusting limestone completely. Partial combustion or insoluble residue increases production cost and brings unfavorable influent to product quality.

Renovation of lime furnace

Details	Pre-produced products	New products
Capacity	30 tons per day	100 tons per day
Cost	Expensive	Cheap
Chemical portion	60-80 percent	Above 80 percent
Insoluble residue	3%	0-2%
Ecological factor	Medium	Well
Utilization of coal	60-70%	100%
Utilization of stone	60-70%	100%

Table 32 New product quality /produced through renovated furnace/

NECESSARY INVESTMENT ESTIMATION

	<i>Details</i>	<i>Measurement</i>	<i>Size</i>	<i>Price per unit</i>	<i>Total amount</i>
	Equipments				
1	Building	M2	1600	\$200	425,000,000
2	Factory facilities	Complex	1	¥2,200,000	426,800,000
3	Kibbler	Unit	1	¥23,870	4,630,780
4	Conveyor	Complex	1	¥12,139	2,354,966
5	Chamotte brick	Tn	160	¥2,300	71,392,000
6	Fire resistant materials	Tn	20	¥5,000	19,400,000
7	Steam furnace	Unit	1	¥200,000	38,800,000
8	Limestone grinding mill	Unit	1	¥80,000	15,520,000
9	Installation cost	15%			73,788,297
10	Transportation cost	To Ereen		¥150,000	29,100,000
11	Customs duty				70,000,000
12	Transportation cost	To Darkhan			48,300,000
13	Testing				42,760,000
	Total amount				1,267,846,043

Table 33 Necessary investment estimation

Lime Furnace will be supplied by Chinese Henan Hongke Heavy Machinery Co.,Ltd and capital expenditure estimation was made as of June 20, 2010

	2011	2012	2013	2014	2015
Sales income	2 525 737	5 951 137	6 985 440	7 157 347	7 608 604 008
	500	500	000	313	
<i>Percent change</i>	107%	136%	17%	2%	6%
Cost of goods sold	2 063 595	3 577 459	3 971 464	3 969 199	4 048 519 792
	952	969	559	243	
<i>Percent change</i>	106%	73%	11%	0%	2%
Operational profit	462 141	2 373 677	3 013 975	3 188 148	3 560 084 216
	548	531	441	070	
<i>Percent change</i>	109%	414%	27%	6%	12%
Operational cost	210 008 691	253 019 427	320 712 937	316 396 608	312 549 433
<i>Percent change</i>	82%	20%	27%	-1%	-1%
Profit before paying interest and dividend	252 132 857	2 120 658	2 693 262	2 871 751	3 247 534 783
		104	504	462	
<i>Percent change</i>	138%	741%	27%	7%	13%
Interest cost	-	-	-	-	-
<i>Percent change</i>	-100%	-	-	-	-
Dividend	50 426 571	424 131 621	538 652	574 350	649 506 957
			501	292	
<i>Percent change</i>		741%	27%	7%	13%
Profit before tax	201 706	1 696 526	2 154 610	2 297 401	2 598 027 826
	285	483	003	169	
<i>Percent change</i>	363%	741%	27%	7%	13%
Tax liabilities	20 170 629	169 652 648	215 461 000	229 740 117	259 802 783
<i>Percent change</i>	363%	741%	27%	7%	13%
Net profit	181 535	1 526 873	1 939 149	2 067 661	2 338 225 044
	657	835	003	052	
<i>Percent change</i>	363%	741%	27%	7%	13%

Table 34 Estimated income plan

INCOME STATEMENT

Items	2011 percent	2012 percent	2013 percent	2014 percent	2015 percent
Sales	100,00	100,00	100,00	100,00	100,00
Cost of goods sold	81,70	60,11	56,85	55,46	53,21
Operational profit	18,30	39,89	43,15	44,54	46,79
Operational cost	8,31	4,25	4,59	4,42	4,11
Profit before paying interest and dividend	9,98	35,63	38,56	40,12	42,68
Interest cost	-	-	-	-	-
Dividend	2,00	7,13	7,71	8,02	8,54
Profit before tax	7,99	28,51	30,84	32,10	34,15
Tax liabilities	0,80	2,85	3,08	3,21	3,41
Net profit	7,19	25,66	27,76	28,89	30,73

Table 35 Income statement

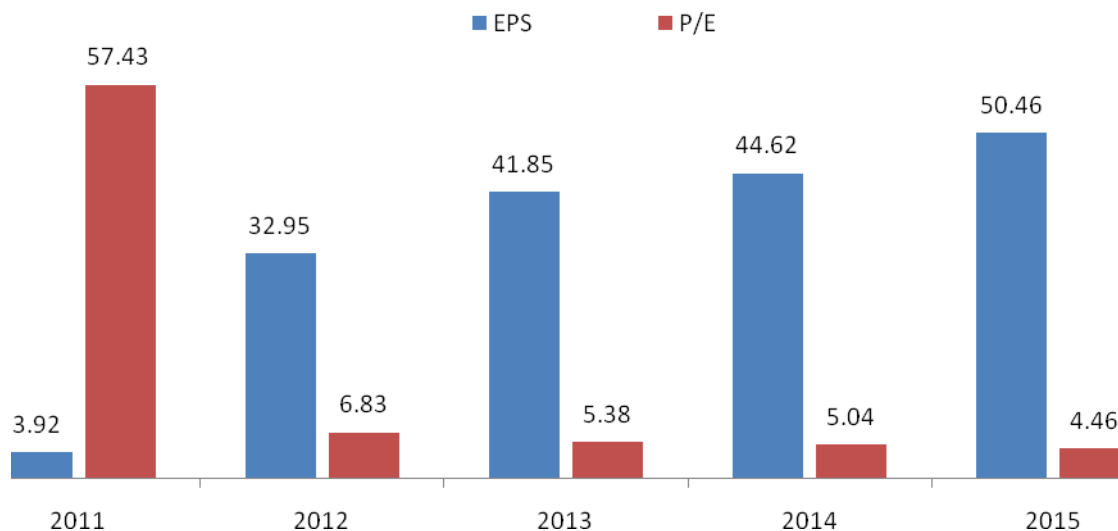
CASH FLOW ESTIMATION

	2011	2012	2 013	2014	2015
Beginning balance of cash	4 420 066	671 212 336	845 395 307	2 692 754 996	4 849 786 089
Cash flow from main operating activities	2 525 737 500	5 951 137 500	6 985 440 000	7 157 347 313	7 608 604 008
Net cash flow	2 530 157 566	6 622 349 836	7 830 835 307	9 850 102 308	12 458 390 097
Cash paid to employees	278 070 000	490 200 000	690 240 000	690 240 000	690 240 000
Insurance expense paid	33 368 400	58 824 000	82 828 800	82 828 800	82 828 800
Cash paid for purchase of raw materials	955 129 500	2 146 233 510	2 400 033 510	2 400 033 510	2 484 633 510
Cash paid for utility expenses	644 085 288	776 552 750	762 654 500	777 654 500	787 763 750
Operating expense	67 000 000	90 000 000	112 000 000	112 000 000	112 000 000
Other expenses	102 693 800	121 360 000	121 210 000	130 210 000	136 210 000
Income tax	20 170 629	169 652 648	215 461 000	229 740 117	259 802 783
Investment	1 921 791 043	1 000 000 000	-	-	1 500 000 000
Dividend	50 426 571	424 131 621	538 652 501	574 350 292	649 506 957
Total cash expense	4 072 735 230	5 276 954 529	4 923 080 311	4 997 057 219	6 702 985 799
Cash surplus/loss	- 1 542 577 664	1 345 395 307	2 907 754 996	4 853 045 089	5 755 404 298
Financing	3 650 000 000	-	-	-	-
Loan payment	1 436 210 000	500 000 000	215 000 000	3 259 000	-
Ending balance of cash	671 212 336	845 395 307	2 692 754 996	4 849 786 089	5 755 404 298

INVESTMENT YIELD

<i>Indicator s</i>	2011	2012	2013	2014	2015	
Net profit	181,535,657	1,526,873,835	1,939,149,003	2,067,661,052	2,338,225,044	8,053,444,591
PV	157,863,407	1,154,469,307	1,274,990,469	1,182,288,590	1,162,565,492	4,932,177,265
NPV						1,332,177,265
ROR						24.82%
Out. shares	46,334,602	46,334,602	46,334,602	46,334,602	46,334,602	
Price	225	225	225	225	225	
EPS	3,92	32,95	41,85	44,62	50,46	
P/E	57,43	6,83	5,38	5,04	4,46	

Company's present value of 5-years' net profit is 4.9 billion tugrugs and current net present value is 1.3 billion tugrugs. Also as the company's return on investment is 24,82% which is 9.82 percent more than minimum net profit amount, it is estimated that pursuing current project is possible.



Picture 9. Return on investment

Price and profit ratio is the main indicator of company's stock demand and shows how much investor is paying for unit per share. In case of "Silikat" JSC, this ratio decreased as follows, 57.43, 6.83, 5.38, 5.04, 4.46 etc., implying increasing company efficiency and company's possible profit increases rapidly. As in case of actively traded companies in the

market, it can draw investors' attention if this indicator is less than 15, this ratio is attractable indicator for investors.

Normal stock investors benefit from either capital gain or dividend payout. For Silikat JSC, annual yield amount per share increased 3.92, 32.95, 41.85, 44.62, 50.46 as such. Also company has decided to payout over 20 percent of given year's profit to the shareholders as dividend.

1.8 ISSUER'S RISK ANALYSIS FOR INVESTORS

2.9.1 External analysis

1. Sector risk

Mining sector: According to the report of World Bank, Asian Development Bank, Open society forum and other research offices, it has been mentioned that mining is becoming one of the leading sectors and open to further development. All these organizations have defined the main hinder for this sector to be investment, government policy, and not stable legal environment, such as sudden income tax and stability law. On the one hand, as mining becomes supporting sector for development, government must intervene into regulation and sector's operation, though too much government control creates number of risks.

Risk regarding unfair market competition: Considering government intervention, there are cases of unfair market competition. Generally big political powers and big market cap companies operate in this sector.

Construction sector: Construction sector which was stagnant during the period of economic transaction started to grow back again after 2001 and developed rapidly until 2008. Favorable situation of foreign trade, stability in banking and finance and increase in people's income have contributed to this development. Since 2003, annual growth rate of construction sector was at least 5.1 percent. As of last four years, construction sector contributed average of 4 percent to the GDP, becoming one of the rapidly growing industrial sectors.

Lack of legal frame and investment environment of construction sector makes sector development cycle slower, of which:

- Rigid banking loan policy, such as short term high interest rate put pressure on construction companies with long-term technological cycle.
- Lack of asset-backed-loan for long term, low interest rate limits individuals' financial potential and reduces amount of factory revenue.

2. Economic and political risk regulatory

- a. Volatility in exchange risk affects directly to the financial stability. Thus high probability of sudden loss can be experienced in financial plan or budget.
- b. Another main disadvantage of this sector can be debt network among last customers, which affects company's operation negatively.
- c. Dependency on costs of repairs, flammable materials affects directly to the product price.
- d. It is possible that government intervention can result unfair market competition. Such as, enrichment factory – Erdenet, which has high market share of lime, generally has tendency supplying to state owned companies.
- e. Tax system during the period of foreign economic and macro condition changes, becomes pressure.

3. Risks relevant to limited number of clients, suppliers and customers

- a. Lime revenue comes from 40% mining and energy sector, 20% light concrete factories, 40% skin manufacturers and light factories. Though fall in whichever of these sectors affects negatively to the company's operation.
- b. High percentage of light concrete revenue is derived from in-process constructions, which puts the company in risk of operating cash shortage.

4. Risks relevant to security issuer's business

- a. Business sector the security issuer operates in has main influence in economic development and fully able to get support from the government, local and foreign organizations.
- b. The business itself has long year experience and market demand so this is rapidly developing business.
- c. The main market company will supply is manufactured lime and light concrete. Thus if the product price decreases because of market competition, company's profit and revenue amount might go down.
- d. Electricity price is controlled by the government, and if the price is set beyond business project estimation, there is a risk of not reaching financial forecast.
- e. Coal price increase
- f. Transportation cost increase

5. Risk related to environment and health

The largest negative effect of factory's operation on the environment is pollution, dust and soil erosion, of which:

Nowadays, around 40% of lime that is produced in Mongolia is through bayu technology, remaining 60% is manufactured by vertical шaxт technology. Because the bayu technology creates the most pollution, it has negative effect on the environment. It has been required to reduce pollution rate by introducing modern technology. Though the existing vertical шaxт technology creates pollution much less than the bayu technology, planning-to-introduce-factory executes optimal flaming process and is eco-friendly.

2.9.2 Company's internal condition analysis

1. Financial risk

- a. While selling products, planned cost exceeds as raw material or transportation cost increases.
- b. Couldn't reach the planned revenue amount as market competition intensifies.
- c. Not fully capacity usage because of lack of operating cash.
- d. New facility, technology, and building will be operational, supplied after due date, or cancelled.

2. Human resource, management risk

- a. Risks involving executive managers
 - i. Not being able to operate factory professional might result losing customers and clients, furthermore decreased sales might lead to financial hardship.
 - ii. Unstable financial condition might drive share price down.
- b. Risks involving skillful, experienced, specialized people
 - i. Lack of system to assess workers might end up losing skilled specialists.
 - ii. Not being able to use human resource fully because of factory capacity.
- iii. The fact that working condition is hard and satisfying worker's need is not enough might lead to not attracting capable workers.

3. Risks regarding high-significant license, special permission, and contract period

- a. Special permission of mining extraction is granted at 30 years. In case of not paying the annual payment that is reflected in law on time, there is risk of invalidation of license. Also if the resolution is made from government bodies to renew special permission of mining extraction, valid date subject to change.

- b. If the payment pursuant to the agreement of holding land and using underground water is not done, subject to charge fine or terminate factory operation.

- 4. Other risks relating to matters that can change investor's decision to buy security.
 - i. Unstable condition in capital market and banking sector might affect investors negatively.
 - ii. Unsuccessful security issuing might devastate investor's confidence of this market.
 - iii. Not depending on the issuer, lack of liquidity in securities also draws investors back from investing in securities market.
 - iv. Interest rate of savings is relatively high, also government guarantees savings, which makes it least risky and higher return investment.

2.12 UNDERWRITER COMPANY'S INFORMATION

Broker, diller, underwriter, investment advisory firm - "BDSec" JSC made an agreement with "Silikat" JSC on October 11th, 2010 in order to gather investment to increase factory capacity, renovate technology, and increase company's financial potential.

Pursuant to the agreement, total of 170 outstanding shares will be split into 177, and additional 16,222,300 shares will be issued at the offer price of 225 tugrugs to raise capital of 3,6 billion tugrugs.

"BDSec" JSC, underwriter, broker, diller and investment advisory company, was established in 1995 and has been operating in capital market for 15 years. Our company changed its organization structure in June, 2006 by becoming publicly traded company and raised 1.0 billion tugrugs. In 2008, additional shares were issued to raise total of 3.7 billion tugrugs and expanded its operation range.

Our company was granted Underwriting service permission in accordance with number 34 resolution of June 07, 2005, becoming one of the first underwriting service companies. Between 2005 and 2008, total of 13 companies raised capital by issuing securities in Mongolian capital market, of which "BDSec" JSC worked on 8 publicly traded companies' issuing.

Also "BDSec" JSC has experience and worked as a mediator of Puma bond of "Puma group" in 2004, 2005, Reconstruction bond of "Moninjbar" JSC in 2005, Nisslel Urguu bond of "Niislel Urguu" JSC in 2007, and as an assistant executor of MCS Electronics bond of "MSC Electronics" in 2004.

2.13 CONTACT NUMBER AND ADDRESS OF RESPONSIBLE SPECIALIST FOR FURTHER DETAILED INFORMATION ON SECURITY.



Member of Mongolian Stock Exchange
“BDSec” JSC

www.bdsec.mn

Address: Office building of “BDSec” JSC, Zaluuchuud Avenue, 27/1, 8th khoroo, Sukhbaatar district, Ulaanbaatar city, Mongolia

Specialist in responsible for the security:

1. Name : Ganbold.J
Occupation : Operation director of “Silikat” JSC
E-mail address : info@silikat.mn
Contact number : 976-70117116
Mobile phone : 99151285

2. Name : Lkhamdolgor.B
Occupation : Senior specialist, “BDSec” JSC
E-mail address : lhamdolgor@bdsec.mn
Contact number : 976-11-312030
Mobile phone : 976-99010589