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蒙古礦業公司在鉥國際的證券交易所的 IPO 案例探討

A Case Study of Mongolian Mining Companies' IPO in International Stock Exchange

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Thesis

A Case Study of Mongolian Mining Companies' IPO

in International Stock Exchange

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Abstract

Mongolia is rich in mineral resources and mining industry is integral to Mongolian economy and attracting foreign investments. In this current situation, Mongolian mining industry companies started to go public to raise capital and attract more foreign investments. The purpose of this study is to propose a business model regarding how Mongolian mining companies go public abroad based on two Mongolia cases and relevant secondary data published by international news agencies. This business model describes procedures and considerations for Mongolian mining companies to follow if they want to launch IPO abroad. Companies should consider why they want to go public, benefits and opportunities, advantages and disadvantages of going public, timing, management team, historical sales data and product superiority in order to succeed. IPO procedure includes making decisions to go public, preparation, hiring advisors and creating management team, then going through all the process according to going public requirement. This study was limited by the previous research, subjects and ability of experts. Doing this study creates a basic business model for future research and Mongolian mining companies.

Data for this research was obtained from both secondary and initial source which is obtained from interviews with employees in Mongolian mining sector companies. Each interview questionnaire was sent to interviewees through emails. Interview questionnaire had a cover letter that explained the purpose of the interview and brief introduction of case companies.

Key Words: Initial Public Offering (IPO), going public, IPO model, Securities and Exchange Commission (SEC), Mongolian Mining Corporation (MMC), Erdenes Tavan Tolgoi LLC (ETT), Hong Kong Stock Exchange (HKEx).

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Chapter 1 Introduction

1.1 Background of the study

1.1.1 Country background

Mongolia is landlocked country bordered by Russia to the north and China to the east, south and west. Mongolia is the world's nineteenth largest country with an area of more than 1.5 million square kilometers and a population of approximately 2.8 million people (Commission, 2009). The landscape has several distinct geographic features, including forest mountain ranges to the north, desert and low mountain areas to the south, high mountain ranges to the west and vast plaints to the east. The climate is continental with hot summers and very cold winters.

Mongolia's population is relatively homogenous in terms of ethnicity, language and religion. Its population is also relatively young with more than 60% of people below the age of 30. Approximately 60% of Mongolia's population lives in Ulaanbaatar (the capital city), Darkhan (an industrial center in the north near the Russian border), and Erdenet (a city grown around a large copper mine). The rest of the population comprises mainly nomadic livestock herders.

Mongolia has had a significant impact on world history. The Hun, Turk and Mongol Empires all originated from this region, with latter controlling most of Asia and parts of Europe in the 12th and 13th centuries. In 1921 Mongolia became a communist country with Russian assistance and aligned itself with USSR. During this period the economy was centrally planned and Soviet-model legal system dominated the country's politics and economy until 1990. In 1990, with the collapse of USSR, the country erupted into riots and demonstrations, leading to Mongolia's transition to democracy and a free market economy.

Mongolia is a developing country and ranked as lower middle income economy by World Bank (Wacaster, 2011). Economic activity in Mongolia has traditionally been based on herding and agriculture, although development of extensive mineral deposits of copper, coal, molybdenum and gold has emerged as a driver of industrial production.

1.1.2 Mongolian mining industry background

Mining in Mongolia has historically been limited to placer mining in alluvial deposits and some stone age, hard rock cuttings. Mongolia's mineral wealth first began to be explored and exploited by the Russian after 1920, and later by Mongolians themselves.

Geological data of mining industry gathered since the 1920s and exploration to date has proven vast mineral reserves, but only 15% of the country has been fully mapped. There are over 6,000 deposits of around 80 different minerals discovered to date in Mongolia. Only 400 of these have been defined, and of this number approximately 160 are currently being mined (Commission, 2009).

The mining sector is integral to the Mongolian economy and in 2008 accounted for over 20% of gross domestic product (GDP), 56% of industrial output, and 69% of export earnings. According to the National Statistical Office of Mongolia, preliminary estimates of the 2010 GDP indicated year-on-year increase of 25.3% compared with that 2009, or a 6.1% increase in the GDP according to the World Bank's quarterly economic update for Mongolia, the value of the mining sector, as percentage of the GDP, increased by about 3% year-on-year in the last quarter of 2009 and by the same amount in the first and third quarter of 2010. Foreign investment in mining increased 49% to about $1.1 billion in 2010 compared with $759 million in 2009.

In 2010, Mongolia's economy benefitted from increasing global prices for some mineral commodities then Mongolia's coal production doubled to 25 million metric tons to become nation's top export earner, spurring the government to push through development of mines (Fox Hu & Cathy Chan, 2011). The entire Tavan Tolgoi area holds more than 6 billion tons of coal, one of the world's biggest untapped sources of the mineral, according to Erdenes MGL, the state-controlled owner of the deposit.

1.1.3 Opportunities and Challenges

There are number of opportunities and challenges in the Mongolian mining sector. There are over 200 foreign and local exploration and mining companies operating in Mongolia. This number is set to grow in the future and these opportunities exist for foreign suppliers to supply foreign-owned and joint-ventured projects in the higher end of the market, as these companies have higher operational standards and are quality conscious. There are considerable opportunities for investment in the form of joint ventures with local partner.

Mongolia has some of the most significant mineral deposits in the world. Only 15% of the country has been fully mapped, and of this more than 6,000 significant deposits of 80 different minerals have been discovered. This situation alone makes Mongolia one of the more attractive countries for green field exploration and mining and it attracts more and more foreign direct investments.

The main challenge of mining sector is economic nationalism. Mongolia is experienced a renewed sense of nationalism and independence since 1990 and this is evident at all levels of the political economy. The sense of national pride is and influential factor at all levels of decision making in government and the commercial sector. Politicians have tendency to use this to their electoral advantage and practice popular politics with economic issues.

As a new democratic country, legal environment is big challenge for mining sector. Mongolia became democratic country in 1990 and The Constitution has provided the structure of government, but many of the processes and mechanism of decision making are still evolving. In the mining sector, this is particularly evident by frequent changes to mining legislation and foreign investment laws. In order to support Mongolian mining sector companies to go public abroad directly from Mongolia requires improve laws and legal environment by the politicians.

Beginning in 2011, coal leads Mongolia's economy beating copper and its profits outrun other export products. Some 25,245 million tons coal was mined in 2010, and 18,241 million tons of coal has been exported. Compared to 2010, coal mined in 2011 grew 130.4 percent and coal exports 123.3 percent. Recent information related to the giant Tavan Tolgoi coal deposit of Mongolia attracts the interest of coal entrepreneurs and investors.

People are expecting the mining industry would be the key indicator (R. Greg Bell, 2008) to become a developed country. The Mongolian government is very supportive of the development of mining properties in the country and the world. Because the importance of the mining sector to the economy is likely to continue to grow and contribute to an even higher proportion of the country's GDP in the future.

1.2 Statement of the Problem

Mongolia needs to look beyond the coal and copper mines that are driving country's economic boom to find more balanced model of growth (Fox Hu & Cathy Chan, 2011). In this globalized world economic going public, launching Initial Public Offering (IPO) abroad is a trend in many countries such as Taiwan, Canada, and Australia etc. An IPO can be one of the best routes to funding growth for fast-growing companies seeking to raise capital.

Each private company selects different going public and IPO model (McKenzie, 2007) depending on country, industry, and product. The purpose of this research is to develop a suitable going public/IPO model for Mongolian mining industry companies in order to lead them how to go public abroad. Two case companies in Mongolia, the one who already went public and another one who is in process to go public abroad, they are creating their own going public models based on Mongolian situation and mining industry, but those two companies are two different cases and take different models to go public. Thus we need to make professional going public model for Mongolian mining industry companies who want to go public abroad.

1.3 Research Questions

This case study is designed to address how the IPO works to Mongolian related mining sector companies and their decisions to go public.

The research questions to be addressed in this study are:

1. Who is capable to go public in Mongolian mining sector (Are they ready to go public)?
2. When is the good timing to go public?
3. Where it is suitable to go public for Mongolian mining companies (Is the market right for them)?
4. Why do Mongolian mining companies want to go public and launch IPO abroad?
5. How do Mongolian mining companies determine how to go public abroad?

The case study will be designed to address how the IPO process going well and would be successful performance in international stock exchange and how those IPO decisions affect Mongolian economic condition as well.

1.4 Significance of this study

For Mongolian companies especially for mining companies to going public and launch IPO in international stock exchange is brand new subject and it is developing in recent few years. Even though going public is common trend in other countries, but for Mongolians this topic is studied less and companies have lack of going public knowledge.

In order to go public and launch IPO in right timing with good management team, first of all we should educate companies and teach them IPO and going public direction. What is IPO, what are the advantages and benefits, what the procedure is and how it works? Then that would help companies to have knowledge and make them good decision to purchase stocks and succeed.

Based on the purpose of this research is to develop suitable going public/IPO model for Mongolian mining industry companies in order to lead them how to go public abroad, this research would be helpful for future Mongolian mining industry companies who want to go public abroad in the future, to help them to understand circumstances of Mongolian mining companies' IPO decisions in international stock exchange and how they succeeded there.

1.5 Organization of thesis

There are five chapters in this thesis. Chapter two presented a comprehensive review of literature, described what is IPO and going public and what the procedure is. The third chapter described the research methods of this research including how cases were selected, the forms of data collection, how data analyzed. The chapter four presented case background and its result of the case analysis. The final chapter summarized the result and make conclusions, limitations and suggestions of this research.

Chapter 2 Literature Review

Why do private companies decide to go public? For few beneficial reasons of an IPO? Of course, all the benefits must be weighed against the costs associated with a public listing. The owners of a private company should ask themselves "Why should we go public?" (Lybrand, 1992)

2.1 Are you ready to go public?

Usually a company begins to think about going public when the finding required to meet business growth begins to exceed its debt capacity. But simply because a company needs capital does not mean that going public is the "right," or even possible, answer. To go public, company must be attractive candidate in the eyes of the institutional, regional or industry – specific investors who are potential sources of capital.

How can people determine if the company is a public offering candidate? The answers to the following questions can help.

- *Has the company demonstrated a sustained or increasing growth rate high enough to attract investors?*

Generally, a company that outpaces the industry average in growth will have a better chance of attracting prospective investors that one with marginal or inconsistent growth. Some underwriters consider a company to be an IPO candidate when it has annual sales revenue of at least $20 million and profitability of approximately $1 million or more.

- *Has the company reached the point where prospects for maintaining a strong sales and earnings growth trend in the future are reasonably good?*

Many companies that have successfully gone public have shown market support for their product or service that would sustain a 25%-50% annual growth rate for a five – year period. This growth potential should be even larger if institutional investors are expected to buy shares in the company. The exception might be the early stage company that has developed to the point that the risks usually associated with a venture capital investment – product development, manufacturing capability, market acceptance and market size – have been reduced.

- *Are the company's products or services highly visible and interest to the consuming and investing publics?*

The established company can answer this question with historical sales data, while the early stage company must use market research projections and demonstrated product superiority. In fact, the early stage company usually qualifies IPO candidate because of the uniqueness of its product or service.

- *Is management capable and committed?*

In any public offering, the quality of the management team is key factor. It must have credibility with the investing public; the organization must have depth and quality in leadership and skill. It must be committed to the time and effort involved in meeting registration requirements, handling analyst meetings, and providing financial reports required for both the Securities and Exchange Commission (SEC) and shareholders on timely basis. It must also be committed to implementing a system of management controls and financial reporting and to fully disclosing previously private financial data, which is necessary to maintain credibility and investor confidence after the IPO.

- *Do the benefits outweigh the costs of going public?*

Selling equity represents a permanent forfeiture of portion of the returns associated with corporate growth. Also, raising equity capital in the public markets can entail substantial costs, such as underwriting discount plus other fees and expenses.

- *Is the market right?*

The demand for initial offerings can vary dramatically, depending on overall market strength, the market's opinion of IPO's, industry economic conditions, technological changes and many other factors. When a bull market is booming, new corporate offerings enjoy bursts of popularity. In a declining market, however, IPO activity slows down and may even come to a dead stop. Although no one can accurately forecast the market's mood, you must consider the importance of timing and be prepared to alter the company's timetable.

Some analysts believe that a good company, properly managed, can always go public. A bear market simply shakes out some of the deals that should not be in the market anyway. In any case, there will be downward adjustments to the offering price after a stock market plunge. When the market is down, a company may want to more seriously consider alternatives to public offerings, or if there is no urgent need to raise cash, may simply decide to wait until better times (Draho, 2006).

- *Why am I going public?*

The most important question a CEO should ask is, “Why do I want to go public?” some of those reasons are evident: (Lybrand, 1992)

- To raise capital.
- To acquire other companies.
- To pull money out of the business.
- To enhance the company’s reputation.

Other reasons may be more private and personal. What is truly important is to recognize the reasons and keep the goal in mind throughout the going public process. The decision to go public is one of the most important decisions company can make. Once done, it is both time consuming and costly to retreat to nonpublic status.

In deciding whether going public is right for a company, it’s critical that weigh carefully the advantages and disadvantages of being public company and think about the impact those advantages and disadvantages would have on the company’s future. Most important of all, make sure the reason for wanting to go public is a valid one. Carefully think through motives and subject them to a frank and honest analysis.

Too often, companies are tempted to go public for the wrong reasons: for prestige, perhaps, or simply because the timing may seem right in the marketplace. Reasons for going public may vary, but the final test should be whether the move is in the best interest of the company’s future growth.

If going public is the right move for the company, planning and controlling the IPO process carefully and building the proper support team are vital to ensuring that investments are properly rewarded. Whether ultimately decide to go public or not, understanding what's required to undertake an IPO successfully will help make an informed assessment of what will be the best course for ensuring the company's future.

2.2 Going Public

An initial public offering (IPO) or stock market launch is the first sale of stock by a company to the public (Ojala, 2012). It is a public offering (Draho, 2006). An IPO in which a company sells its unissued securities and receives all the proceeds in the form of additional capital is called a primary offering. Alternatively, an IPO in which securities that belonged to the owners of the company are sold, and in which the owners receive the proceeds, is called a secondary offering. In a third option, the offering may be combination of the two, benefiting both the owners and the company. (Ernst & Young, 1995), (Kleeburg, 2005)

As the result of an initial public offering, a private company turns into a public company (Frederick D. Lipman, 2009). The process is used by companies to raise expansion capital and become publicly traded enterprises.

Going public:

- Attract investors: the established company can answer this question with historical sales data, while the early stage company must use market research projections and demonstrated product superiority. In fact, the early stage company usually qualifies as an IPO candidate because of the uniqueness of its product or service.

- The demand for initial public offering can vary dramatically, depending on overall market strength, the market's opinion of IPOs, industry economic conditions, technological changes and many other factors.

Benefits and Opportunities of Initial Public Offering

Going public can provide many benefits and opportunities. The benefits of going public are many diverse. Some of the most attractive benefits include: (Kleeburg, 2005), (Ernst & Young, 1995)

- *Improve Financial Condition.* The sale by the company of shares to the public brings money that does not have to be repaid, enhances a company's financial condition immediately.
- *Greater Marketability.* Once a company goes public, the owners often find themselves in a new and more favorable position.
- *Improve Value.* The value of the stock may increase remarkably, starting with the initial offering. Shares that are publicly traded generally command higher prices than those that are not. There are at least three reasons why investors are usually willing to pay more for public companies: (1) the marketability of the shares, (2) the maturity/sophistication attributed to public companies, (3) the availability of more information.
- *Diversification of Personal Portfolios.* Going public makes it possible for shareholders to diversify their investment portfolios.
- *Estate Planning.* Going public also helps with estate planning because the liquidity of shareholder's estate is increased by the sale of shares. Having an existing public market for shares retained also makes it easier for the company to hold future secondary offerings of shares.
- *Capital to Sustain Growth.* The net proceeds from the sale of shares in a public offering provide working capital for the company – an obvious benefit. The

company can use this capital for general corporate purposes or apply it to more specific project.

- *Improve opportunities for Future Financing.* By going public, a company usually improves its net worth and builds a larger and broader equity base. The improved debt-to-equity ratio will help you borrow additional funds as needed or reduce your current cost of borrowing.
- *Listing on a Stock Exchange.* A goal of many companies that go public is to be listed on stock exchange. A listing facilitates trading in your company's stock and fosters public recognition because listed companies are generally more closely watched by the financial press.

Drawbacks and Continuing obligations

The potential benefits must be weighed against the drawbacks and obligations of going public. In many cases, you can minimize the impact of these disadvantages through thoughtful planning backed by help of outside advisors.

- *Loss of Control.* Depending on the proportion of shares sold to the public, the previously private stakeholders may be at risk of losing control of the public company, now or in the future.
- *Sharing the Company's Success.* By contributing their capital, investors share the risk of the business – but they also will share the company's success.
- *Loss of Privacy.* Of all the changes that occur when a company goes public, perhaps none can be more problematic than the loss of privacy. When the company goes public, the Securities and Exchange Commission (SEC) requires it to disclose much information that private companies do not ordinarily disclose.
- *Limiting Management's Freedom to Act.* In going public, management agrees to surrender some degree of freedom.
- *Periodic Reporting.* As a public company, the company will be subject to reporting requirements of the SEC – quarterly financial reporting, annual financial

reporting prompt reporting of current material events, and various other requirements such as reporting sales of control shares and tender offer.

- *Initial and Continuing Expenses.* Going public can be costly and will call for tremendous commitment of management's time and energy. The largest single cost in IPO is ordinarily the underwriter's discount or commission, which generally ranges from 6 to 10 percent of the offering price.
- *Limits on Major Shareholders.* Controlling or major shareholders of a public company are not free to sell their shares at will. The SEC has restriction on when and how many shares insiders may sell. The company must be aware of these restrictions when it plans an IPO.
- *Fiduciary Responsibilities.* When a business is private, the money the company invests or puts at risk was the company's own liability. Once company is public, the money and risk now belong to the shareholders, to whom the company is now accountable.

Advantage and Disadvantages of Initial public offering

Advantages:

- *Access to Long-Term capital.* The company expands by reinvesting its undistributed earnings and by looking to its owners, banks or institutional lenders.
- *Improved financial condition.* When company sells its stock to the public, it receives permanently invested equity funds that improves its financial condition and increase its borrowing capacity.
- *Simpler access to Subsequent capital.* Once the company registered in SEC, the processing of succeeding issues ordinarily involves less onerous requirements.
- *Prestige and Public awareness of Business.* The more widespread the distribution of shares, the greater the public's awareness of the company's products or services.
- *Established Value for Securities.* With publicly held shares, the daily market stock quotations show the value that the investing public places on those shares.

Disadvantages: The biggest disadvantage of IPO's is that there is typically a lot of paperwork. You have to file quarterly reports with the Securities and Exchange Commission (SEC). (Lybrand, 1992)

- *Lack of operating confidentially.* Some particularly sensitive areas of disclosure are the remuneration of officers and directors; the security holdings of officers, directors and major shareholders; all the detail information.
- *Pressure for Short-Term performance.* In a publicly held company, management is under constant pressure to balance short-term demands for growth with strategies that achieve long-term goals.
- *Demand for dividends.* As a public company, shareholders may demand that management establish a regular dividend policy.
- *Possible Loss of Management control.* If more than 50% of the company's shares are sold to the public, the original owners could lose control of the company.
- *Initial and Ongoing costs.* The process of going public is expensive and time consuming. The financial statements must be audited by an independent public accountant.

2.3 Going Public Process

The process of going public requires preparation well in advance of the actual offering (Lybrand, 1992), (Kleeburg, 2005), (Ernst & Young, 1995). In fact, management should begin planning for an initial public offering as soon as it foresees the possibility, rather than when the need is immediate. Planning for a public offering of securities should start as quickly as possible. Whether the company is considering going public within the next six months or in three years, it will have to consider a variety of factors. Early attention to these considerations can help reduce many of the costs and burdens of an IPO.

Once company has decided to go public, it must consider the steps needed to ensure a smooth transition from private to public. It may need to do some corporate house-keeping, even house-cleaning. It usually takes three to five months from the time a company decides to go public until the time it receives the proceeds from an offering. The length of this period depend on, among other things, the readiness of the company to go public, the availability of the information that must be disclosed in the registration statement and the market conditions.

As part of the IPO preparation, an issuer must hire the necessary advisors: an underwriter, an auditor and legal counsel. The underwriter is the most important advisor because of the intermediary role plays between the issuer and investors.

The Underwriter : The investment bank is a vital cog in a successful IPO. IPOs generally involve one or more investment banks known as "underwriters". The company offering its shares, called the "issuer", enters a contract with a lead underwriter to sell its shares to the public. The underwriter then approaches investors with offers to sell these shares. Selecting an underwriter first requires identifying the banks that can lead manage the IPO process. The underwriting market for IPOs is dominated by traditional investment banks, whether independent like Goldman Sachs or Lehman Brothers, or bought by commercial banks, like First Boston (Credit Suisse).

Underwriters of the company play the central role in actually selling the company's securities. Selecting the right managing underwriters is the key ingredient for a successful IPO and managing underwriter will have the primary responsibility for determining the initial price of the shares to be sold. For some small companies, the reputation of the underwriters can be one of the most important factors investors consider in evaluating the IPO. A variety of firms actively underwrite IPOs.

Auditors and Lawyers **:** Auditors and lawyers also play important roles in the IPO process. The service provided by auditors and lawyers to the issuer during the IPO process are necessary and vital for a successful public offering. However, the economic impact of these services and the intangible qualities auditors and lawyers provide are minor next to the underwriter. The principal benefit of prestigious auditor is the certification it conveys about the issuer quality. Prestigious auditors demand that the financial statements provide the most accurate reflection possible of the issuer's financial health to avoid a potential lawsuit.

Legal counsel offers little in the way certification benefit to issuers, but their negotiating skills and experience can have an impact on the IPO outcome. Experienced lawyers, especially those who have dealt with post – IPO litigation, may be inclined to argue for more risk factors in the prospectus and more negative overall tone to protect the issuer from legal liability.

The SEC : The final step in the registration process, before your securities are sold, is to obtain clearance from the SEC. The SEC is not responsible for evaluating or regulating the quality of securities offered to the public. Rather, it attempts to protect the public interest by ensuring that adequate information is provided to prospective and current investors to allow them to evaluate the quality of your securities.

The SEC was established by Congress in 1934 in response to the stock market crash of 1929. The SEC administers federal securities legislation, including the 1933 Act and the 1934 Act (Lybrand, 1992).

STEPS IN THE IPO PROCESS
Preparing and filing the initial registration statement with the SEC
SEC review, resulting in SEC letter of comment
Preparing the amended registration statement
Preparing the preliminary prospectus or “red herring”
Holding financial analysts’ meeting or “road shows”
Holding the due diligence meeting
Negotiating and signing the price amendment and underwriting agreement
Closing

Table 1 Steps in IPO Process

The Registration Process : The registration process begins, for the SEC Securities and Exchange Commission’s purposes, when the company reached a preliminary understanding with an underwriter on proposed public offering. From that point on, the company become subject to SEC regulations on what the company may and may not do to promote the company. Registration is ultimately affected by the filling of a final registration statement with SEC.

The registration statement consists two parts: Part I is the prospectus which is widely distributed to underwriters and prospective investors. Part II contains additional information which is required by, and provided to, the SEC. the entire registration statement becomes part of the public record and is available for public inspection. Various registration forms are specified or allowed in different circumstances. A registration statement usually requires a considerably period of time to prepare. The statement must contain all disclosure, both favorable and unfavorable.

The Quiet Period : Once a preliminary understanding with the underwriters has been reached, a quit period begins during which the company is subject to SEC guidelines regarding publication of information outside of the prospectus. The opportunity to enhance awareness of the company, its name, products and geographic markets will be limited, since any publicity that creates a favorable attitude toward to securities could be considered illegal. There are two time windows commonly referred to as "quiet periods" during an IPO's history. The first and the one linked above is the period of time following the filing of the company's S-1 but before SEC staff declare the registration statement effective. During this time, issuers, company insiders, analysts, and other parties are legally restricted in their ability to discuss or promote the upcoming IPO (U.S. Securities and Exchange Commission, 2005).

The other "quiet period" refers to a period of 40 calendar days following an IPO's first day of public trading. During this time, insiders and any underwriters involved in the IPO are restricted from issuing any earnings forecasts or research reports for the company. Regulatory changes enacted by the SEC as part of the Global

Settlement enlarged the "quiet period" from 25 days to 40 days on July 9, 2002. When the quiet period is over, generally the underwriters will initiate research coverage on the firm. Additionally, the NASDAQ and NYSE have approved a rule mandating a 10-day quiet period after a Secondary Offering and a 15-day quiet period both before and after expiration of a "lock-up agreement" for a securities offering.

The Waiting period : Once the registration statement has been filed, the waiting period begins, it continues to the effective date of registration. During this period, there are restrictions on the activities the company and the underwriter can undertake. At this time, the underwriters begin actively soliciting investors who may be interested in purchasing the company’s securities, but the preliminary prospectus in the only written literature permitted.

SEC Review : Registration statements filed by first – time issuers are reviewed by SEC staff specialists- generally consisting of an attorney, an accountant and financial analyst. The group may also consult with other staff experts familiar with a particular industry. The staff reviews the documents to determine full and fair disclosure, particularly whether the document contains misstatements or omissions of material facts. The SEC review, however, cannot be relied upon to assure the accuracy or completeness of the data.

The review of financial data is performed by staff accountant who reads the entire prospectus and the remainder of the registration statement to become familiar with the company and its business. The staff accountant may also refer to published annual and interim reports and newspaper articles for information regarding the company and its industry. This review is primarily directed at the financial statements and other financial data and the independent accountant's report. Its purpose is to determine whether the data comply with SEC requirements and the applicable pronouncements of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board, as well as with various SEC staff interpretations and policies dealing with accounting and auditing issues.

The SEC has developed and adopted review procedures that provide for SEC issuance of comments to registrants without formal proceedings. The informal comment techniques has proved to be an effective method of communicating and resolving questions and defects before permitting a registration statement to become effective. After review of the registration statement, the SEC typically issues a letter that sets forth questions, deficiencies and suggested revisions. The letter, referred to as a letter of comment, is generally mailed to company's legal counsel (Kleeburg, 2005).

The Due Diligence Meeting : After the registration statement is filed, before it becomes effective, the principal underwriter holds a due diligence meeting. The due diligence meeting is attended by the principal underwriter and often by members of the underwriting group, as well as by the company's principal officers, counsel for the company, counsel for the underwriter and the independent accountant. The usual procedure is for the underwriters to question the company representatives on the company and its business, products, competitive position, recent developments in finance, marketing, operations and other areas, and future prospects.

Due diligence meeting are held to reduce the risk of liability associated with a filing by giving faith effort to ensure that all material matters have been included and have been fairly stated in the registration statement. The due diligence meeting is an important safeguard, as the company and its principals may be held civilly liable for untrue or misleading statements or omissions of material fact that cause a registration statement to be misleading.

Closing : The closing date – generally specified in the underwriting agreement – is usually 10 days to two weeks after the effective date of registration statement. At the closing, the company delivers the registered securities to the underwriter and receives payment for the issue. Various legal documents, as well as an updated comfort letter prepared by the independent accountant, are also exchanged.

2.4 After Go Public

Going public will subject a company, its shareholders, directors, and executives to a variety of new responsibilities (Kleeburg, 2005). Some of these relate to the requirements of the securities laws, and others relate to the way must now company's affairs. As a newly public company having filed a 1933 Act registration statement, also immediately subject to the 1934 Act periodic reporting requirements. Upon completion of the IPO, a registrant becomes subject to the periodic reporting requirements under the 1934 Act.

As an officer or director of a new public company, suddenly have acquired what may be described as a mixed blessing. On one hand, there has been a capital infusion into the company. On the other hand, the company has acquired a group of shareholders, often numbering in the hundreds or thousands, each of whom has a valid and vital interest in the company's success. Shareholders, either directly or relying on securities analyst as well as the financial press, will critically evaluate management's performance. Also, these shareholders will measure the company's progress against their own expectations and the performance of competitors and industry. New responsibility to shareholders has far-reaching implications for the way they conduct their company's business.

A public company must promptly disclose any significant events or developments concerning the company, whether positive or negative. It must take particular care that material information is disclosed publicly and not leaked, either intentionally or inadvertently. To keep the market interested in its securities, a company must direct its promotional efforts not only at those already invested in the company—the shareholders—but also at potential investors. There are a variety of effective ways to reach this financial community.

A new measure of the company's performance has also been introduced – the company's share price. From the shareholders' perspective, this is critical measure. New public companies often initially enjoy high share prices resulting, in part, from investor interest in initial public offerings and fueled by the press attention that often attends a company's going public. Unless market interest in public company is sustained after the public offering, the initial euphoria will disappear and value of the company's shares will decline. Maintaining the company's positive image with the financial community, and market interest in shares, requires a conscious effort by management.

Maintaining a strong, positive corporate image will serve company well. In addition to reinforcing its image with shareholders and potential investors, it will help attract and retain employees, influence customer and customer purchase decisions, and create goodwill that may indirectly benefit company in a variety ways.

Many companies retain public relations consultants to assist them. A public relations program can be integrated with product advertising but should also be directed at building a corporate image beyond the company's specific products or services (Kleeburg, 2005).

Chapter 3 Methodology

The purpose of this research is to design good going public/IPO model for Mongolian mining industry companies in order to lead them how to go public abroad based on two selected case companies. A research methodology (Yin, 2003) requires gathering relevant data from the specified two case study companies in order to analyze key factors and have more complete understanding.

3.1 Research Design

The case study methodology was used in this thesis. This thesis is qualitative case study. Two cases in Mongolian mining sector were selected for collecting relevant data. In addition, four experts in this area based on their ability and the Secondary data published by international news agencies Yahoo Finance and Reuters were collected and analyzed to support the findings of the two cases.

The main purpose of this research is to create a better understanding of the IPO and going public. Two case companies were selected. First one is Mongolian Mining Corporation which is first Mongolian invested company went public abroad and launched IPO in Hong Kong Stock Exchange in 2011. The second one is Erdenes Tavan Tolgoi LLC, Mongolian state owned company planning to launch IPO in late 2012 or early 2013 in three cities at the same time such as London, Hong Kong and Ulan Bator.

The selection of these cases was based on 2 issues. The first one is both companies are not foreign invested companies they are both Mongolian invested companies which means all the investments will return to Mongolian development. The second issue is first time ever in history Mongolian companies are launching IPO abroad which means going public in international stock exchange.

3.2 Subjects and Data Collection

This research involved Mongolian mining sector companies in order get the data for the study. The subjects used in this research are employees of Mongolian Mining industry companies and experts in this area. First, I had an opportunity to meet with the Batbileg Batbayar, 'IPO representative of Erdenes Tavan Tolgoi LLC' to get more understanding of Erdenes Tavan Tolgoi LLC's current situation and process of its IPO launching process. Then next stage was to interview with second case company. Interview questionnaires of case companies were based on literature review part. Second round of interview was with selected four experts in order to improve the data collection and interview questionnaires were came out from those questions of two case companies' interview, feedback and discussion.

Data collection was done through both secondary and primary sources. Primary data sources included key informants for each case study by interviewing Mongolian Mining industry companies and experts to get the relevant data. Secondary data sources mainly covered international publications and annual reports of the case companies.

The main methods of collecting qualitative data are:

- Individual interviews
- Observation by experts

The main data techniques used in this study were interviews and secondary source analysis. Two case companies and four experts in that area were selected to be interviewed. All the interviews were conducted in both Mongolian and English. All the interviews were transcribed in “word” format. The information gathered from interviews was subjective. Interview questionnaire was sent to all interviewee through email and each interviewee responded by email. The purpose of observation of experts is to support the two case companies.

Interview questionnaire had an cover letter that explained the purpose of the interview and emphasized the confidentiality of the interviewee.

3.3 Data Analysis

Data analysis will be obtained from interview with the companies and experts, secondary and statistical data from the secondary resources provided by international news agencies web sites.

Before the data analyzed, all the interviews and observations are transcribed. The data analysis began with demographic data of all the interviewee and coding interviewees’ responses associated with the variables related to each item on the interview.

Chapter 4 Results & Discussion

4.1 Case Background

Eric Landheer, Senior Vice President and Head of Issuers Marketing, HKEx (0388) invited Mongolian mining company to be listed in Hong Kong. One destinations of Eric Landheer's nonstop business trip was Ulan Bator, capital of Mongolia in April 2011, invited major Mongolian enterprises to be listed in Hong Kong, including Erdenes Tavan Tolgoi (ETT), largest coal mining company in the world.

Landheer went to the origin of Genghis Khan again early June 2011, attended the "Mongolia: Capital Raising & Investment" Conference & Exhibition from June 6-10. The conference and exhibition are organized by Frontier Securities with the topic "Hong Kong as Mongolia's international listing and fund raising platform". He shared the new rules for the listing of mineral and exploration companies.

The Hong Kong Stock Exchange will target companies operating in the mining and natural resources and luxury consumer goods sectors in a global road show marketing the attractions of the local bourse. "Hong Kong will become the largest mining finance market in the world." Landheer confidently predicted before his departure.

Now 87 mining and natural resources companies listed in Hong Kong, he said, with an average stock price to earnings ratio of more than 20 times, making the Hong Kong bourse an attractive alternative to traditional mining and natural resources exchanges in Canada, Britain and Australia. Hong Kong stock exchange already has over 150 metals and mining or energy companies listed on its boards. Mongolia Mining Corporation (975) is one of the cases.

Mongolian Mining Corporation (MMC; SEHK Stock Code: 975) is a high-quality coking coal producer and exporter in Mongolia (MMC, 2010) – first Mongolian company launched their IPO (Initial Public Offering) in Hong Kong Stock Exchange (HKEx) in October 2010 . Its IPO became HK$5.8 billion (US$744 million) in Hong Kong.

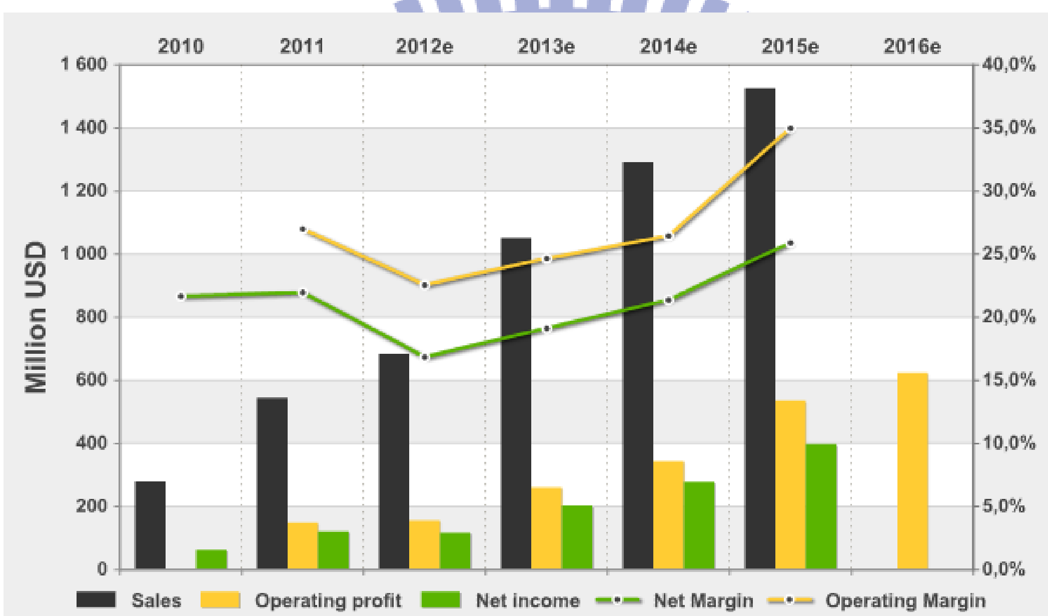


Figure 1 Mongolian Mining Corporation's Income Statement Evolution.

MMC's operations have grown rapidly from a green-field project in 2009 to a world-standard mining complex to date. With its premium quality coal products, international standard project development and effective management practices, the Company has already secured its leading position in the domestic coal mining industry.

MMC is overseen by a reputable group of shareholders with international as well as local management expertise. In 2010, after only one year of fast-paced operations, the Company was successfully listed on the main board of HKEx, making it the first Mongolian company to offer its shares internationally.

Later on 2012 or 2013 state – controlled company Erdenes Tavan Tolgoi LLC (ETT) will be proceeding with its IPO with the objective of the raising US $2 to $3 billion according to Mongolian Government's decision (MGL, 2011) to float 29% of ETT in an IPO in 2010. The company intends to go public with a simultaneous IPO in London, Hong Kong, and Ulan Bator. ETT would be the first company to go public in the three cities at the same time, as Mongolia capitalizes on a mining boom driving by demand from China and India.

The total market capitalization of the Mongolian stock exchange was about 2 trillion tugriks ($1.6 billion) as of July 25, 2011, according to data on bourse's website. Hong Kong's exchange, Asia's third largest, was valued at $2.56 trillion that day. The company's decision to list IPO in Ulan Bator is to provide an opportunity to Mongolian investors to participate in purchasing the IPO shares. If it goes ahead, IPO will usefully expand the small band of Mongolia-linked companies in which international investors can actually put their money. The IPO will be managed by Deutsche Bank AG and Goldman Sachs Inc. (GS) while BNP Paribas SA, Macquarie Group Ltd. will also help arrange it. PricewaterhouseCoopers (PWC) will consult as an International Auditing firm and Consultant (Tolgoi, 2012).

4.2 Demographic Analysis

<u>Two case companies:</u>

Company	Mongolian Mining Corporation (MMC; SEHK Stock Code: 975)	Erdenes tavan Tolgoi LLC
Logo		
Address	Central Tower, 16th Floor, 2 Sukhbaatar Square Ulaanbaatar, Mongolia	Finance Center, Jigjidjav Street – 8, 1st Khoroo, Ulaanbaatar Mongolia,
Phone/Fax	Phone: +976 7012 2279 Fax: 976 11 322279	Phone: +976 70118585 Fax: +976 70119595
Website	http://www.mmc.mn	http://www.erdenestt.mn
Founded	1999, based in Ukhaa Khudag, Mongolia	2010, based in Tsogttsetsii, Mongolia
IPO release	October 2010	Estimated later on 2012 or early 2013
IPO price (initial)	HK$7.02	N/A
Earnings from IPO	US$744 million (HK$5.8 billion)	Estimated USD$2-$3 billion
Market Capital	US$1.8 billion (HK$14.15 billion)	N/A

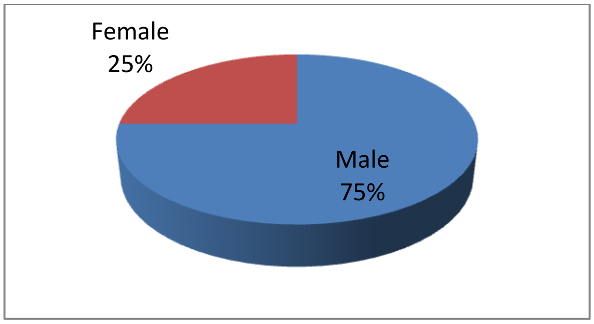
Table 2 Demographics of two case companies

Four experts:

Experts	Expert – 1	Expert – 2	Expert – 3	Expert –4
Company	Prophecy Coal Corp.	UB Business Group	Yeruu Gol LLC	Oyu Tolgoi LLC
Job position	Senior Manager	Researcher	Manager	Analyst
Age	28	24	26	25
Gender	Male	Male	Male	Female
Education level	Bachelor	Bachelor	Bachelor	Masters
Work experience	3 years	2 years	4 years	2 years

Table 3 Demographics of four experts

Average age of all interviewee's is 26.6 years and average work experience is 3.4 years. 75% (3) were male and 25% (1) were female expert interviewees interviewed. From all of interviewees 75% (3) interviewees were with Bachelor Degree and 25% (1) expert interviewees were with Masters Degree.



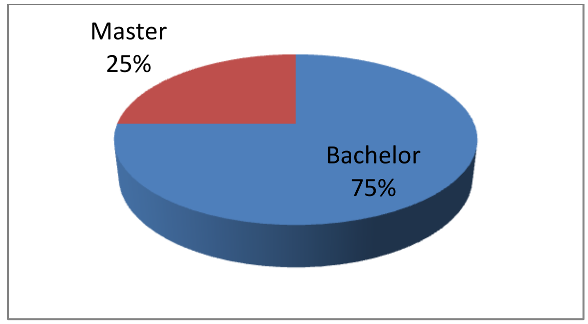


Figure 2 Graph – Gender Distribution

Figure 3 Graph – Education Distribution

From the research questions three questions were selected as main questions to make go public decision of this research. From interviewees response related to research questions shows following result:

1. Why do Mongolian mining companies want to go public and launch IPO abroad?

A. Raise money

B. Pull money out of the business

C. Enhance company's reputation

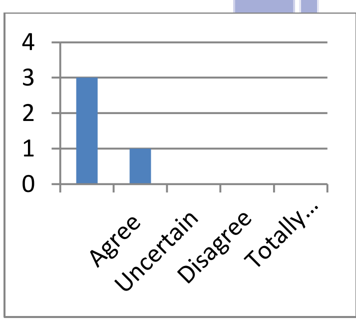


Figure 4 Graph – Raise Money

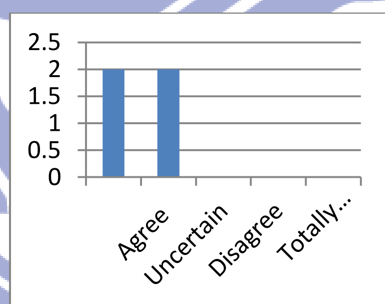


Figure 5 Graph – Pull money out of the business

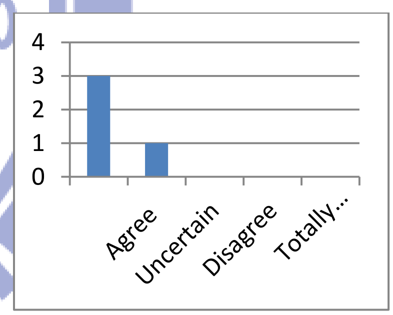


Figure 6 Graph – Enhance the company's reputation

From all the responses, 75% (3) were totally agreed, 25% (1) were agreed with raise money is one of the main reason to go public. Each 50% (2) were totally agreed and agreed with pull money out of the business is another reason to go public. At the end 875% (3) were totally agreed and 25% (1) were agreed with the reason to enhance the company's reputation is other reason to go public.

2. Do Mongolian mining companies ready to go public?

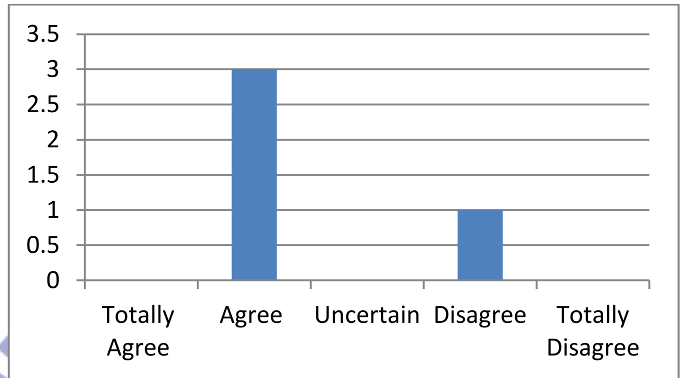


Figure 7 Graph – Ready to go public?

From all the responses, 75% (3) were agreed and 25% (1) were disagreed that Mongolian mining companies are ready to go public.

3. Is the market right for the Mongolian mining companies to go public?

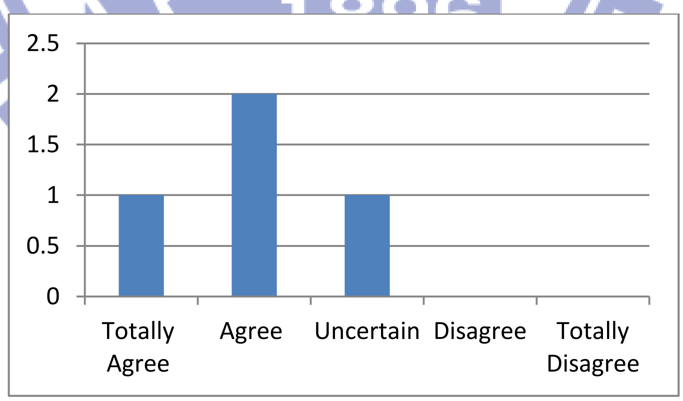


Figure 8 Graph – Is market right?

From all the responses, 25% (1) were totally agreed, 50% (2) were agreed and 2% (1) were uncertain that the market is right for the Mongolian mining companies to go public.

4.3 Secondary Data Analysis

Mongolian Mining Corporation (0975.HK) first Mongolian invested company went public in Hong Kong Stock Exchange in 2010; after Mongolian Mining Corporation went public all of their reports such as quarterly, annual reports are public in international. Mongolian Mining Corporation's annual income statement, balance sheet and cash flow report shows significant difference in before go public, during going public and after went public years. Here are the simple statistical data of MMC:

Year	***Income statement***			***Balance sheet***			***Cash flow***		
	Total Revenue	Gross Profit	Net Income	Total Current Asset	Total Asset	Total Liability	Total cash flows from Operating activities	Total cash flows from Investing activities	Total cash flows from Financing activities
2009	67,000	32,000	10,000	30,000	113,000	69,000	(4,000)	(62,000)	63,000
2010	278,000	123,000	60,000	315,000	1,053,000	326,000	70,000	(564,000)	823,000
2011	543,000	254,000	119,000	395,000	1,628,000	859,000	21,000	(215,000)	(80,000)

Currency in HKD (Hong Kong Dollar)

Table 4 Statistical data of Mongolian Mining Corporation

Table 4 shows how MMC's annual income statement, balance sheet, and cash flow significantly increased after MMC went public abroad.

Beta:	0.00
Market Cap (Mil.):	HK$14,153.24
Shares Outstanding (Mil.):	3,705.04
Dividend:	--
Yield (%):	--

Currency in USD (United States Dollar)

* Data is provided by REUTERS, December 2012

Table 5 Overall analysis of MMC

	# of Estimates	***Mean***	***High***	***Low***	***1 Year Ago***
SALES (in millions)					
Year Ending Dec-12	13	680.56	1,007.00	493.83	1,200.55
Year Ending Dec-13	13	1,048.30	1,375.00	805.96	1,616.25
EARNINGS (per share)					
Year Ending Dec-12	14	0.02	0.06	0.00	0.10
Year Ending Dec-13	14	0.05	0.07	0.02	0.13
LT Growth Rate (%)	4	21.55	34.33	14.30	39.30

Currency in USD (United States Dollar)

* Data is provided by REUTERS, December 2012

Table 6 Consensus estimates analysis

Table 5 and 6 show MMC's overall and consensus estimates analysis based on its annual income statement, balance sheet and cash flow, how MMC's statistical data changes after went public.

4.4 Discussion

From the responses of all the interviewees open-ended question part, we found a description of their close-ended question answers and discussion related to interview questions. It is a big opportunity to go public abroad for Mongolian companies to go public abroad. In terms of potential and room for growth abroad, Mongolian mining sector companies look impressive where they prospects for maintaining a strong sales and earnings growth trend. In terms of Mongolian geological location, Hong Kong Stock Exchange is most favorable market for Mongolians as an Asian country because Hong Kong is the financial center of Asia.

With most of the interviewees discussed that in order to make Mongolian mining industry companies to go public; Mongolian Government should improve policy and legal environment in order to be more supportive for Mongolian companies when go public abroad and make the procedure close to our country, because there are some problematic in the law system and laws related to going public abroad and bringing foreign investments to Mongolia. Mongolian Government should fix those problems as soon as possible to provide more comfortable environment for Mongolian companies. If Erdenes Tavan Tolgoi LLC go through right way same as Mongolian Mining Corporation there is big possibility to accomplish their goal and get the investments as they were expected.

Chapter 5 Conclusions

5.1 Conclusion

The findings of this research revealed that going public and launching IPO abroad is new trend for Mongolian mining industry companies; first Mongolian mining industry company Mongolian Mining Corporation (0975.HK) went public successfully in October 2010. After MMC go public their income statement, balance sheet, and cash flows were significantly increased by significant number. Hence MMC was the first company in the industry, sector; beginning was pretty good and successful. The future going companies such as Erdenes Tavan Tolgoi LLC estimated late 2012 or early 2013, if they follow MMC's example and their going public model there is a possibility to succeed. This means Mongolian mining industry companies are ready and capable to go public abroad and high enough to attract investors to raise capital and generate revenue; the market where Mongolian mining companies choose to go public is right with this timing and circumstances; products are competitive visible, interest to consuming and attract investment. For both of two case companies Hong Kong Stock Exchange is most suitable stock market to go public abroad. Doing this research in Mongolia is developing the perception of going public and IPOs for future research and future going public mining industry companies in Mongolia.

5.2 Limitations and Future Research

Although this research was reached its aims, there were some unavoidable limitations. First of all, the limitations of this research are based on using limited subjects in Mongolian mining industry companies; especially case companies in mining industry in Mongolia, and ability of experts in this area were limited. Second, prior research studies regarding to this research topic were limited because of the topic is new and developing in Mongolia recent few years.

By developing this study in Mongolia creates basement for the future research and companies. It is important to have more studies to develop this research topic in the future to create Mongolian mining industry going public model.

5.2 Suggestions

Going public is both time consuming and financially, that's why companies should prepare in advance in order to go public. The recommendations for future going public companies are list below:

- Define the importance and the advantages of going public
- Answer all the questions regarding to research questions then make the decision and prepare in advance
- Consider disadvantages and drawbacks
- Make sure that going public not in wrong reasons
- Make good management team; select experienced underwriter and consultant, because good management team is key success.

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Appendix A Interview Questionnaire

NATIONAL CHIAO TUNG UNIVERSITY
HSINCHU, TAIWAN
NCTU Global MBA Program, College of Management

“MONGOLIAN MINING COMPANIES’ IPO IN INTERNATIONAL STOCK EXCHANGE: INTERVIEW”

Dear interviewee:

The purpose of this interview is to study the situation of Mongolian mining companies’ IPO in international stock exchange and other relevant information regarding the process. This interview is in partial fulfillment of completing a graduation process for a Global Masters’ of Business Administration (College of Management).

Your individual interview will be kept strictly confidential and will only be used for the purpose of academic research only. Thank you very much for your time and cooperation. I appreciate your help in assisting with this research.

Contact information:

Orgil Batdelger
Email: orgilmab@gmail.com
Cell phone: 0983623443
Hsinchu, Taiwan

Introduction

Mongolian Mining Corporation (MMC; SEHK Stock Code: 975) is a high-quality coking coal producer and exporter in Mongolia – first Mongolian company launched their IPO (Initial Public Offering) in Hong Kong stock exchange in October 2010. Its IPO became HK$5.8 billion (US$744 million) in Hong Kong.

Erdenes Tavan Tolgoi LLC will be the second Mongolian mining company that launching its IPO in international stock exchange. Hence, the following interview is designed to know more about what do the other Mongolian mining companies think of ETT's going public process and its IPO.

INTERVIEW

1. Name:______________________________
2. Company:___________________________
3. Job position:_______________________
4. Age:_______________________________
5. Gender: □ Male □ Female
6. Educational level:____________________
7. *What do think why does Erdenes Tavan Tolgoi LLC (Mongolian mining companies) want to go public?*

		5	4	3	2	1
1.	Raise money	5	4	3	2	1
2.	Acquire other companies	5	4	3	2	1
3.	Pull money out of the business	5	4	3	2	1
4.	Enhance the company's reputation	5	4	3	2	1

Description:

8. *What do you think is Erdenes Tavan Tolgoi LLC (Mongolian mining companies) ready to go public?*

- □ Totally Agree
- □ Agree
- □ Neutral
- □ Disagree
- □ Totally Disagree

Description:

9. *Do you think Is the market right for Erdenes Tavan Tolgoi LLC (Mongolian mining companies) to go public?*

- □ Totally Agree
- □ Agree
- □ Neutral
- □ Disagree
- □ Totally Disagree

Description:

10. *Has Erdenes Tavan Tolgoi LLC (Mongolian mining companies) demonstrated a sustained or increasing growth rate high enough to attract investors?*

- □ Totally Agree
- □ Agree
- □ Neutral
- □ Disagree
- □ Totally Disagree

Description:

11. *Has Erdenes Tavan Tolgoi LLC (Mongolian mining companies) reached the point where prospects for maintaining a strong sales and earnings growth trend in the future are reasonably good?*

- □ Totally Agree
- □ Agree
- □ Neutral
- □ Disagree
- □ Totally Disagree

Description:

12. *Are Erdenes Tavan Tolgoi LLC's (Mongolian mining companies) products or services highly visible and interest to the consuming and investing publics?*

- □ Totally Agree
- □ Agree
- □ Neutral
- □ Disagree
- □ Totally Disagree

Description:

13. *Is management team of Erdenes Tavan Tolgoi LLC (Mongolian mining companies) capable and committed?*

- ☐ Totally Agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Totally Disagree

Description:

14. *Do you think do the benefits outweigh the costs of going public?*

- ☐ Totally Agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Totally Disagree

Description:

15. *Mongolian Mining Corporation already went public and succeeded. Does your company think that Erdenes Tavan Tolgoi LLC (Mongolian mining companies) will succeed as well as MMC?*

- ☐ Totally Agree
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Totally Disagree

Description:

16. *How would your company make the decision to go public?*

17. *What is the purpose of going public?*

Thank you!

Appendix B Annual reports of Mongolian Mining Corporation

Annual Income Statement of MMC (prior IPO, during IPO and after IPO)

Period Ending	Dec 30, 2011	Dec 30, 2010	Dec 30, 2009	Dec 30, 2008
Total Revenue	**543,000**	**278,000**	**67,000**	**-**
Cost of Revenue	288,000	154,000	35,000	-
Gross Profit	**254,000**	**123,000**	**32,000**	**-**
Operating Expenses				
Research Development	-	-	-	-
Selling General and Administrative	-	-	-	-
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	392,000	203,000	49,000	4,000
Operating Income or Loss	**151,000**	**75,000**	**18,000**	**(4,000)**
Income from Continuing Operations				
Total Other Income/Expenses Net	-	-	-	-
Earnings Before Interest And Taxes	151,000	75,000	18,000	(4,000)
Interest Expense	(13,000)	-	-	-
Income Before Tax	-	-	-	-
Income Tax Expense	36,000	23,000	4,000	(1,000)
Minority Interest	-	-	-	-
Net Income From Continuing Ops	119,000	60,000	10,000	(4,000)
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	**119,000**	**60,000**	**10,000**	**(4,000)**
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	**-**	**-**	**-**	**-**

Currency in HKD

Annual Balance Sheet of MMC (prior IPO, during IPO and after IPO)

Period Ending	Dec 30, 2011	Dec 30, 2010	Dec 30, 2009	Dec 30, 2008
Assets				
Current Assets				
Cash And Cash Equivalents	228,000	675,000	2,000	4,000
Short Term Investments	-	-	-	-
Net Receivables	92,000	25,000	18,000	2,000
Inventory	58,000	8,000	8,000	-
Other Current Assets	-	-	1,000	1,000
Total Current Assets	**395,000**	**715,000**	**30,000**	**8,000**
Long Term Investments	4,000	-	-	-
Property Plant and Equipment	-	-	-	-
Goodwill	-	-	-	-
Intangible Assets	-	-	-	-
Accumulated Amortization	-	-	-	-
Other Assets	-	-	-	-
Deferred Long Term Asset Charges	10,000	2,000	-	2,000
Total Assets	**1,628,000**	**1,053,000**	**113,000**	**36,000**
Liabilities				
Current Liabilities				
Accounts Payable	19,000	5,000	2,000	-
Short/Current Long Term Debt	562,000	251,000	34,000	3,000
Other Current Liabilities	94,000	37,000	16,000	16,000
Total Current Liabilities	**554,000**	**132,000**	**42,000**	**19,000**
Long Term Debt	145,000	165,000	10,000	-
Other Liabilities	-	-	-	-
Deferred Long Term Liability Charges	-	-	-	-
Minority Interest	-	-	-	-
Negative Goodwill	-	-	-	-
Total Liabilities	**859,000**	**326,000**	**69,000**	**21,000**
Stockholders' Equity				
Misc Stocks Options Warrants	-	-	-	-
Redeemable Preferred Stock	-	-	-	-
Preferred Stock	-	-	-	-

Common Stock	646,000	646,000	-	-
Retained Earnings	180,000	61,000	1,000	(10,000)
Treasury Stock	(57,000)	21,000	43,000	24,000
Capital Surplus	-	-	-	-
Other Stockholder Equity	-	-	-	-
Total Stockholder Equity	**-**	**-**	**-**	**-**
Net Tangible Assets	**-**	**-**	**-**	**-**

Annual Cash Flow of MMC (prior IPO, during IPO and after IPO)

Period Ending	**Dec 30, 2011**	**Dec 30, 2010**	**Dec 30, 2009**	**Dec 30, 2008**
Net Income	**119,000**	**60,000**	**10,000**	**(4,000)**
Operating Activities				
Depreciation	19,000	3,000	2,000	-
Adjustments To Net Income	-	-	-	-
Changes In Accounts Receivables	(88,000)	(8,000)	(7,000)	(3,000)
Changes In Liabilities	-	-	-	-
Changes In Inventories	(56,000)	-	(8,000)	-
Changes In Other Operating Activities	-	-	-	-
Total Cash Flow From Operating Activities	**21,000**	**70,000**	**(4,000)**	**8,000**
Investing Activities				
Capital Expenditures	(292,000)	(220,000)	(59,000)	(26,000)
Investments	-	-	-	-
Other Cash flows from Investing Activities	-	-	-	-
Total Cash Flows From Investing Activities	**(215,000)**	**(564,000)**	**(62,000)**	**(26,000)**
Financing Activities				
Dividends Paid	-	-	-	-
Sale Purchase of Stock	-	-	-	-
Net Borrowings	-	-	-	-
Other Cash Flows from Financing Activities	177,000	(344,000)	(4,000)	-
Total Cash Flows From Financing Activities	**(80,000)**	**823,000**	**63,000**	**21,000**
Effect Of Exchange Rate Changes	(13,000)	(1,000)	-	-
Change In Cash and Cash Equivalents	**(287,000)**	**328,000**	**(3,000)**	**3,000**

Currency in HK