

Investment proposal (Korea HungSong Trading Company)

1. Background and brief history of Investment beneficiary

Korea HungSong Trading Corporation, which supervises business activities, is a state enterprise registered as ⅕-0045 on 29 April, 1992. With a head-office in Ryugyong-Dong, Potonggang District, Pyongyang City, it has an export goods production base, four retail shops and a computer service station in Pyongyang, marine production bases and mines including gold mines in many provinces, one service station in Dongrim and a fuel processing base with a capacity of 50 MT/month in Nampo.

2. Summary of market activities

△ Export of anthracite

Anthracite is one of HungSong's main export items. Through its long-standing anthracite export, it has established a solid foundation ranging from mining to export. Creditable shipping companies both at home and abroad transport the anthracite carrying as much as 30 shipments (7,500 MT-12,000 MT/voyage) a year. It gives HungSong 500,000US\$ of income every year. HungSong has five coal mines in three regions with the annual capacity of 1.5-2 million MT and four coal mines under development and is engaged in developing many other new coal mines.

HungSong has three 2,700Hp 4-axis 4-stroke Diesel engine locomotives each pulling 13 wagons, and 40 20-ton, 25-ton, 30-ton dump trucks (10 trucks in each fleet) to transport coal from mines.

HungSong keeps its regional offices and a 100,000 MT capacity coal store-yard in Nampo to ensure the smooth export of anthracite.

△ Export goods production bases

- Distilleries of Korean gins with an annual capacity of 100 MT.

At the moment its target is confined to national market. However, as the technical equipment and training of the personnel improve, it will be consolidated with the distilleries of extracted liquors to develop into a strong distillery, animal farm and animal feed production base.

- Distilleries of extracted liquors with an annual capacity of 40 MT.

These distilleries produce extracted liquors introduced both at home and abroad to a certain extent like cultivated wild Ginseng liquor, Sanghwang liquor, Pulro tonic and others whose main ingredients are medicinal herbs. They are also engaged in developing new fermented products.

These distilleries intend to conduct joint research and development (equipment, technology, raw material) with Chinese counterparts and when confident, intend to enter European market as fully established products.

Cultivated wild Ginseng liquor, registered as one of the common trade items in the North-South economic exchange, is a health drink produced with folk recipes at orders from the South. The raw material for this liquor is collected from many medicinal herb production bases in provinces.

Prominent doctors and specialists of zymotechnics manage fermentation process to produce and market various extracted spirits.

Some raw materials and some imported materials are, in principle, supplied by contracting parties.

- Pure natural healthy foodstuff production bases

Tonics like yangeron, chongchun(youth)-1 and neo-viagra, powdered products like powder of ginkobonin extracts and powder of Acanthopanax extracts and other health foodstuffs based on medicinal herbs are developed and produced. These bases stimulate foreign markets with joint research, development and production with China and direct their main efforts to developing health foodstuffs targeted at European markets.

At present these bases try to measure the popularity of the products employing multi-item small-amount production method.

△ Animal husbandry bases

Pig farms operating on the basis of intensive fattening technologies and folk methods and animal feed production bases are set up which integrates animal husbandry, distilling and crop husbandry.

They intend to introduce and import, through joint venture with and investment by China animal husbandry know-how, new breeds, fattening additives for animal feed, distilling know-how and equipment, farming equipment and material, management technique and seeds.

△ Hi-tech product development bases

Nano Zinc oxides

High-purity zinc (5N)

△ IT bases

- Computer technology service stations
They produce photos, multimedia programs and CDs.
- Program development Centers
They develop SW multimedia programs, communication and network programs at orders.
- Computer retail outlets and information technology propagation centers
They sell new and used computers, parts, peripheral and related devices and various application programs.
- CG development center (known as Ultra Digital Graphics (UDG) abroad)
Some members of CG development teams co-produced several multimedia programs during June 2004-August 2005 in DanDong, China at the order from a broker.
 - “Little Soldier (Xiao Balujun) Janggal” (Chinese state prize winner, for three months)
 - “Tiantianwen” (six parts) (Multimedia TV serial for Chinese CCTV, for two months)
 - “Ninja Tortoise” (one introductory part) (Multimedia TV program)

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- “Senile dementia” (five minutes) (Program for geriatrics, for one week)
 - “War Hero HanDeoChae” (eight-minute introductory part) (Introduction to historical personages)
 - “Sky sword” (three-minute introductory part) (Multimedia serial)
 - “Bird fables” (paintings for one ten-minute part) (Fable programs for children’s education)

Up to now we have received orders for and produced dynamic images and original pictures for advertisements, 2D and 3D cartoons and others.

What we are prepared for are:

- For Feature-Length Cartoon Film (per minute)
 - Story Board–Compositing
 - Lay Out– Compositing
 - Animation-Painting
- For Cartoon Series (per minute)
 - Story Boarding–Compositing
 - Lay Out–Compositing
 - Animation – Painting
 - Lay Out–Scanning
- Staff of Team A
 - 15 cartoon specialists
 - Four 3D specialists (with experiences of co-producing abroad)
 - One coder
 - 10-12 years of experience in this field
- Staff of Team B
 - Two 2D specialists
 - One fine art specialist
 - Three 3D specialists (with experiences working abroad)
 - 5 years of experience in this field
- Staff of Team C
 - Three multimedia specialists
 - Five systems program specialists
 - Five coders
 - Five trainees
 - 7 years of experience in this field

3. Capacities of production bases

△ Marine production bases

Heungnam: one 470Hp cold-storage transport ship, one 40ft cold-storage container

Haeju: eight 8-28Hp fishing ships, a 60-hectare shellfish farm

Zeungsan: three 6.5-22Hp fishing ships, a 10-hectare shellfish farm

Dongrim: eleven 22-120Hp fishing ships, twelve 6.5Hp fishing ships, a 30-hectare shellfish farm

They intend to expand the export of marine products with cold-storage containers, cold-storage trucks and cold-storage transport ships both at East Sea of Korea and West Sea of Korea, and as for fishes of high quality like scabbard-fish and croaker, plan to farm them introducing necessary technology from Japan and China. The further plan is to expand export bases by supplying necessary amount of fish breeds and introducing newer breeding technologies and gradually farm and export those breeds that enjoy great demand in international markets.

△ Mines

Gold ore with a grade of 15-30g/MT (3,000MT/year)

Silver ore with a grade of 2-4kg/MT (5,000MT/year)

Lead ore with a grade of 46-60% (2,000MT/year)

Limonite dust ore with a grade of more than 40% (5,000MT/year)

Magnetite ore with a grade of 67-72% (analysis by China) (5,000MT/year)

Wolframite ore with a grade of 1-1.76% of WO₃ (6,500MT/year)

Zirconium ore with a grade of 0.38-0.45%/MT of ZrO₂ (3,000MT/year)

Molybdenum ore with the lowest grade of 0.3% and the highest grade of 14% (50MT/year)

Vein graphite with a grade of 40-80% of fixed carbon (30,000MT/year)

Flake graphite with a grade of 76-80% (20,000MT/year)

Tourmaline with a grade of 7-8 % (3,000MT/year)

4. Investment plan

Investment shall be made in three stages:

- Preliminary investment (provision of cash and material)
- Main investment (provision of equipment, technology and material)
- Operation (provision of legal, financial and organizational foundations for the implementation of project)

The estimated amount of investment in the preliminary stage:

Mines: 100,000 US\$

Export of anthracite: 100,000 US\$

Hi-tech product development bases and IT bases: 50,000US\$

△ Preliminary investment

- Getting acquainted with plans and scale of the project
- Getting acquainted with markets and export outlets (market penetration, market demand, market research)
- Provision of raw materials, materials and equipment for expansions
- Field research of location/site and conditions
- Agreement of design and technology
- Estimation of labor costs, training conditions and training costs.
- Budgeting the implementation of the project
- Getting acquainted with the development and scale of new business lines
- Selecting the equipment

△ Investment stages

- Acquisition and transfer of know-how
- Offering bids for specific technical equipment and contract
- Meeting to evaluate the bids and making a contract
- Acquisition of land, construction and installation
- Recruitment and training of technical staff
- Test operation and inauguration of the project

5. Advantages of investment

The demand and supply analysis of the world coal market shows that in the past the supply was exceeding the demand. Since 2001, however, the demand has greatly increased and the world coal market is in the boom.

In China, in particular, although the demand for coal is in constant rise, due to factors like scarcity of resources, the limited production capacities, the irrational transporting conditions and so on, the coal production and supply do not catch up with the demand aggravating the contradiction between the demand and the supply. Therefore, the coal market is bound to turn into a seller-oriented one.

This year, the estimated demand for coal in China will reach 297 million MT in metallurgical industry, 130 million MT in cement industry and 56 million MT in chemical fertilizer industry.

In general, it is anticipated that the demand for coal in China will rise constantly making the coal market more seller-oriented and creating favorable conditions for coal exporting countries.

The estimates of specialists say that until the end of 2006, the supply will fall behind the demand in the world zinc market.

In the second half of last year China decreased the traditional export of zinc and has become a sheer importer.

On the other hand, as China, which accounts for 80% in the supply of Wolfram in the world market, reduced the refund rate of Wolfram export increment value duty, China's Wolfram export has decreased and it will considerably affect the international market.

The volume of lead production in China, which is one of the leading producers and consumers of lead in the world, has increased by 25% compared to last year to 1.9 million MT. During the last 10 months the import of lead ore by China has amounted to 812,418 MT, which is a 22% increase compared to the same period of last year.

The iron ore import by China is expected to reach 299 million MT.

The demand for other metal products is also expected to rise.

As the investment leads to expansion of existing facilities and demand-based production increase rather than being made in a completely new project, stable reversible process will take place.

Considered in terms of demand and supply relation, the percentage of supply compared to demand stays at around 60%.

Moreover it is not merely a question of quantity, as the selling price rises in proportion to the level of concentrating ores and coal which means the amount of purchase does not satisfy the need.

The guideline concerning the investment condition is providing security by phasing the investment into several stages and by going over to the next stage of investment at a point when repayment of invested money reaches about 60%.

The existing production facilities and the items in need of expansion are beneficiaries of our state's powerful encouragement policies.

As the production of the items are normalized and as they are in great demand in international markets, the investment feasibility study is mainly based on the demand in international markets and on the existing capacities and market research which make it scientific enough.

6. Investment feasibility of individual beneficiaries

△ Export of anthracite

Production capacity: 2 million MT/year

Transport capacity: 800 MT/day

Present production amount: 20,000 MT/month

Marketability: 250,000 MT/year

Estimated amount of demand: Constant demand: 500,000 MT/year

Latent demand: 300,000 MT/year

Anticipated demand: 200,000 MT/year

△ Mines

Present capacity: 2,000-5,000 MT/month

Marketability: Every year orders worth around 6,000 MT

Required amount of investment: 100,000 US\$ for purchase of raw materials and for trading cost

Estimated production capacity after investment: Depends upon the capacity of invested equipment, know-how and the supply of fund.

Considered in terms of demand and supply relation, short-term investment of 20,000US\$ per month will be enough.

Repayment of the invested capital: Although dependent upon the reliability of the investment and the amount of orders, the repayment can begin within 45 days from the day of investment which means the investment of 100,000 US\$ can be repaid in 6 months.

The land, electric power and water supply conditions can fully support the production capacity.

△ Hi-tech product development and IT bases

- Hi-tech product development bases

A powerful team of professors, researchers and elite university graduates from leading research institutes and universities are engaged in the developments of coal concentration and processing technology, rock extraction technology, prospecting technology and high-purity and nano technology.

As some of them are near completion, about 300,000US\$ is needed for trial introduction.

- IT bases

Existing equipment: A full set of multimedia programming equipment(worth 2,500US\$)

10 Pentium IV computers

Marketability: 7,500-10,000US\$/month

Estimated purchasing power: 15,000US\$/month when expanded

Required equipment: 50 Pentium IV computers

1 full set of multimedia programming hardwares and softwares

The amount of sale after the investment is estimated to rise as high as 20,000US\$/month and it may further increase with the development of new services.

The safety of the investment may be guaranteed by the investing party retaining the ownership of the equipment procured with invested money.

- Sale of computers and parts

The development of computer and its applications stimulates the purchase of new hardware, software, peripheral devices and parts for upgrading.

Expected amount of sale: 15,000US\$/month

For further information

GPI Consultancy
P.O. Box 26151
3002 ED Rotterdam
The Netherlands
Tel.: +31-10-4254172
fax: +31-10-4254317
E-mail: info@gpic.nl
web: <http://www.gpic.nl>



Note - business mission:

Together with the Korean Chamber of Commerce in Pyongyang, we will organize a trade and investment mission to DPRK (19 - 26 September 2009). Information is available on our website.