

1.10. LOCATION OF THE SUBSIDIARIES AND THEIR CAPACITY

Issuer company is one of the biggest company in the animal husbandry sector with the capacity to slaughter 10 thousand head of cattle in one day and storage capacity with 19.2 thousand tons of meat, subsidiaries that located in 11 province of Mongolia.



Picture 2: location of the subsidiaries

From 2002 “Just Group” LLC made a long term investment into the agricultural sector, within this investment the issuer company made a steps to renew their technologies as a result the issuer company alone serves 32.3% (41634 livestock) meat supply, 26% of the slaughter capacity (large cattle-1810, small cattle-8900 in one day), 30% of total storage capacity (19200 ton), 22.8% of the meat exports (4518.9 tons of meat exported in 2010) of Mongolia. Also in 2010 the supplied 40% of the industrial processed meat (2111 ton), procures 1/3 of the strategic meat reserve and meat export out of Ulaanbaatar city (produced 6918.9 tons of meat and meat products).

Buying the livestock from the herders directly without any middle man at their local plants, made the livestock receiving period longer until December of the given year, and using flexible money policy that are suitable for the local market as the result the number of livestock processing is increased and the cut ability has been increased. Increase of the cut ability made it possible to recover the price increase of meat processing and decreased the cost of production and it's affecting the company's revenue positively.



Plant Capacity:

Table 7 Capacity of the plants

Name of the plants	Slaughtering capacity in one day (number of cattle)		Storage capacity (ton)	Capacity of deep freezing (day/ton)
	Large cattle	Small Cattle		
1 Ulaanbaatar Makh market	-	1,000	7,000	20
2 Bayan-Oglii Makh market	120	800	1,000	20
3 Bulgan Makh market	120	700	500	20
4 Zavkhan Makh market	120	-	500	15
5 Sukhbaatar Makh market	120	800	750	20
6 Uvs Makh market	80	400	250	15
7 Dornod Makh market	200	1,600	3,000	60
8 Khuvsgul Makh market	200	500	1,000	40
9 Baganuur Makh market	300	1,000	1,200	40
10 Selenge Makh market	350	1,600	3,000	40
11 Uvurkhangai makh market	200	500	1,000	/Unfinished/
Total	1,810	8,900	19,200	290

Technological Innovation:

By the full support and funding from “Just Group” LLC the issuer company made a technological innovation from 2006-2010 amount equals to 28.3 billion MNT.

Table 8 Company's Investment amount

Indicator	2006	2007	2008	2009	2010	Total
Plant	89.8	1,940.0	1,264.9	6,659.9	285.2	10,239.9
Rearrangement of plants	109.4	195.8	703.7	96.9	520.4	1,626.2
Enlargement of plants	48.8	189.0	485.5	19.9	-	743.2
Purchase of equipments and installments	36.8	418.9	524.0	1,138.4	2,105.7	4,223.8
Purchase of fixed assets	-	474.3	160.3	12.0	4.1	650.7
Main factory	-	6,786.1	3,554.3	-	-	10,340.3
Construction and roads	2.6	-	-	71.0	340.1	413.7
Total	287.4	10,004.2	6,692.7	7,998.1	3,255.5	28,237.8



1.11. PRODUCTION AND QUALITY INSPECTION

Production Process:

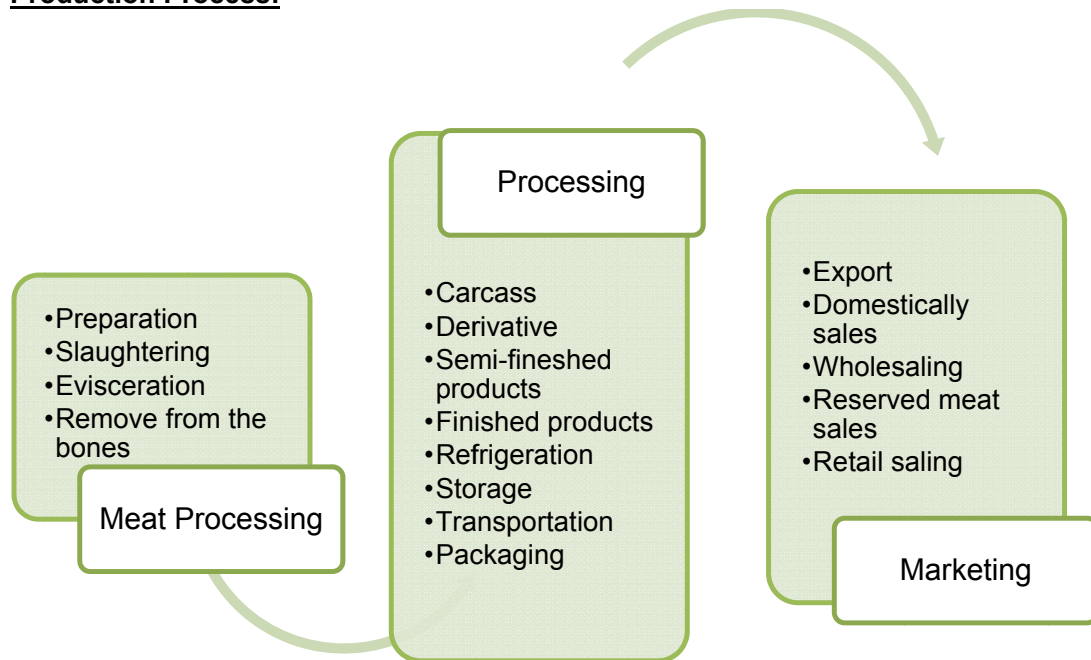


Diagram 1: Production process

In every stage of the production the issuer company pursues the International standards. Because the meat sector is the main product of the food sector so it requires high quality and safety procedures.

The plants technological procedures:

Table 9 Plants technological procedures

1. <i>Meat processing technology</i>	When the livestock come they are quarantined and tested, if there is an sick livestock then it'll not be processed.
2. <i>Slaughtering technology</i>	Before the slaughter the livestock will be rest for 36 hours, it helps that during the slaughter the meat will not become hard and lose their quality. Slaughtering process is held in dedicatory line with the environment that adequate of sanitation, and all the butchers are adequate of sanitation and healthy.
3. <i>Eviscerating technology</i>	After the slaughter the carcasses are eviscerated at minus 4 degrees in order to remove the sourness from the meat. Meats are eviscerated for 24 hours in order to softthen the meats.



4. <i>Technology to remove the meat from the bones</i>	This process requires high standards, so the walls, floors, ceilings of the room mustn't include any chemical elements and the rooms must be made from materials that impermeable hotness and goldness, everything that falls on the floor must be removed automatically. The workers also follow high requirements of standards and safety.
5. <i>Refrigeration technology</i>	The carcass and cutted meats must be refrigerated at least minus 40 degrees, and it will be keep its freshness until it goes to the end user. By doing this the quality of the "Makh Market" brands meat will never lost.
6. <i>Storage technology</i>	Meat, meat product must be stored at least minus 14 degress.
7. <i>Transportation technology</i>	The transportations are made by an dedicatory packages so that during the transportation the products will not damage, to clog or amortized.
8. <i>Packaging, distribution technology</i>	Meat, meat products will be packaged as a customer wants. Follow the special standards of packages. Choose the right distribution channels to distribute the packaged products to the end users.
9. <i>Unoffending to the environment</i>	All the waste that are comes from the plants will be put into centralized waste plant. Will use ammonian refrigerating system so need to focus on their safety.

Meat processing and the operation of the meat processing plants are shown diagram.

A. *Other meat processing plants operational diagram:*



Diagram 2: other meat processing plants operational diagram

B. *Makh market meat processing plants operational diagram :*

Issuer company's subsidiary plants operational range is within 200 km radius and all the herders within that radius are closely connected with the plants.



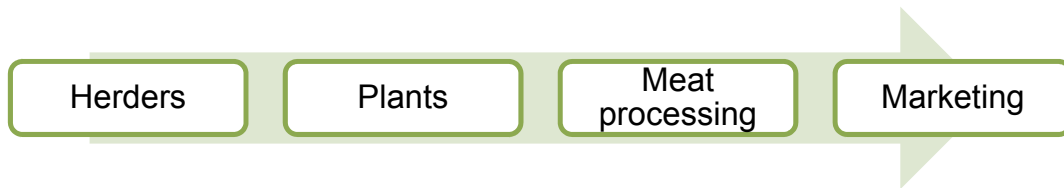
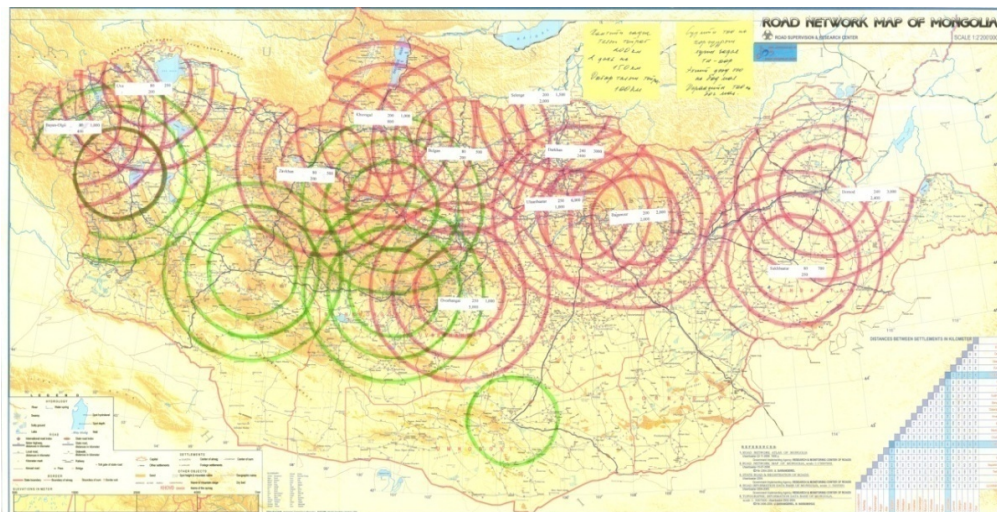


Diagram 3: Makh Markets meat processing plants operational diagram

In 2007 the issuer company introduced new meat processing system and it generated some possibilities like: herders don't need to go far to sell their livestock the distance has become close so that the livestock will not lose their weights, no middle man between herders and plants so it allowed them to decrease the price boosts, supply the customers with high quality meats, and during July to December any time the herders can sell their livestock at current market prices. Through this system the plants are directly buying the livestock from herders without any middle men, and producing high quality meats with low price.

Table 10: Meat processing and cut ability

Types	2007		2008		2009		2010	
	Number of processed livestock	Cut ability of one livestock %/	Number of processed livestock	Cut ability of one livestock %/	Number of processed livestock	Cut ability of one livestock %/	Number of processed livestock	Cut ability of one livestock %/
Cow	16,703	42.3	19,765	45.2	25,468	46.3	6,238	47.7
Horse	3,335	44.5	4,615	47.4	9,521	49.9	4,152	51.5
Sheep	33,902	40.1	55,911	42.1	860	41.9	23,374	42.3
Goat	4,235	39.1	8,273	36.5	1,116	-	7,870	41.9
Total	58,175	-	88,564	-	36,965	-	41,634	-



Picture 3: Radius of the subsidiaries



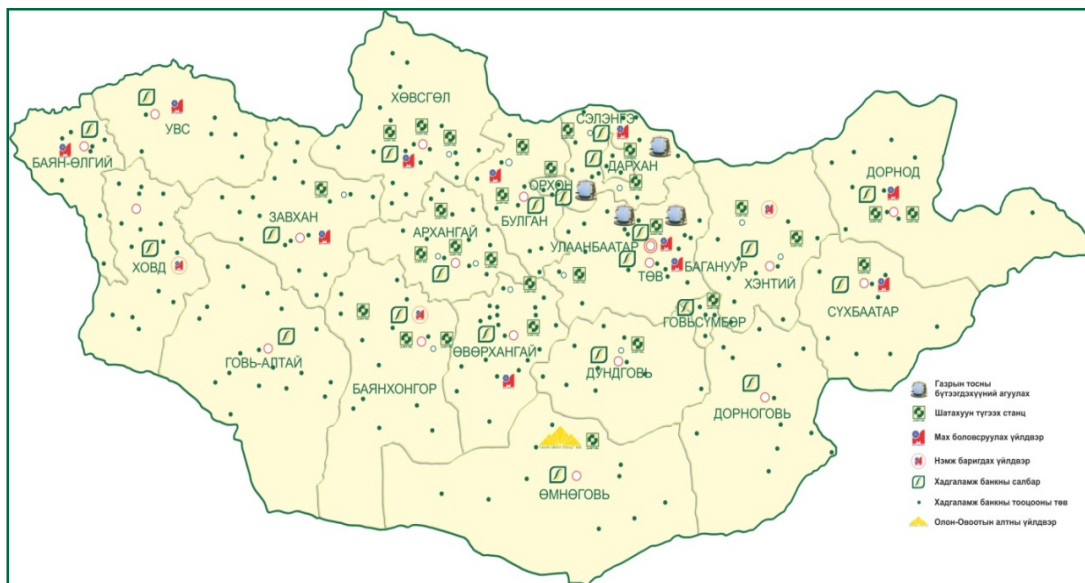
Cooperating with the banks with the following ways during the meat processing:

1. Payment of the livestock:

The cash assets that are dedicated for meat processing are put into Savings Banks deposits and the payments are done by their branches in local areas. Payments for the herders who sold their livestock will receive a check with that check the herders can get their money from any branches of Savings Bank within 3 work day. This is avoiding having high amount of cash at the plants and saving cashes from any risks, also it is helpful for the herders that they can control their expenses.

2. Connect the debts of the herders with the meat processing:

During the winter holiday “White moon” and “Naadam” , or when the school starts the herders need cash so they take a loan from the banks. When the herders make a request to pay the debt after selling their livestock, they contact with the company and join together and supply their livestock in fall. In order to encourage the herders who supplied their livestock to the plants the issuer company pays 1/3 of the debts of the herders. Branches of Savings Banks are located in every province and soums so there aren't any trouble to cooperate with Savings Bank.



Picture 4: Location of the issuer and Savings Banks branches



Process of livestock supply:

Animal doctor, livestock counter, weigh man, specialist of livestock processing and other related officers will take the livestock from the herders and also government's animal inspectional inspector will inspect the process. During the process they will weigh the livestock's live weight and by the cut ability weight.

Following documents are prepared when receiving livestock:

- Certificate of origin /from the local animal hospital/
- Description of police
- Description of local governor and ID of the livestock supplier
- List of the hunch

Randomly choose 20-30% of the total livestock received in order to make inspection, if it's required /suspicious livestock, during the export meat processing, request from the partner, or decision made by animal doctor and inspectional inspector/ then the livestock will be 100% involved in blood testing. If there are some ill and suspicious livestock come out then quarantine that livestock, if it's inadequate then according to the "meat inspectional regulation" to solve separately.

Production:

Issuer company has generated an meat processing plants that have advanced new meat processing technologies, and producing meat, meat products with the quality, safety that meets with the international standards and supplying both domestic and foreign market.

Quality Inspection:

Major term and requirement of meat processing starts from the preparation of livestock until the production of finished goods, transportation, and marketing and in every step the quality inspections should be strict by doing this the customers will be satisfied with the products.

So in every step of the production the issuer is making quality inspections. For example in 1st of September 2010 they introduced the HACCP system at their main Makh market plant also they installed new technologies that are fully meet with ISO 22000 International standard.

Quality inspection of the production:



1) *Test from livestock:*

This test is taken one day before the livestock are been slaughtered and the result must be ready before the slaughtering starts. If necessary took test from every livestock, if not then take test from 20-30% of the total livestock.

2) *Test from the meat:*

This test is made from the sample, test the meat that comes from local areas are as following.

Hereto:

- a. In local area examined by the animal doctor.
- b. when arrived at Makh market main plant examined through quality control test.
- c. Every quarter examined at main laboratory of country's animal hospital and at the main laboratory of animal hospital of Ulaanabatar city.

3) *The following test are tested on the meat and meat product*

Following tests are tested on the meat and meat product to determine the quality: PH, moist, nitrite, azote, protein, peroxide, formalin, benzyl, number of germs, salmonella, fungal, E coli tests.

Inspectional Laboratory:

Issuer company is established an inspection laboratory at their main and subsidiary plants, and inspecting the sanitation, freshness. The main laboratory is authorized from the National Occupational Inspection.

The main laboratory works as give advice and directly controls the branch laboratories, also supplying them with the needed medicines and equipments.

Currently four branch laboratories are equipped with full equipments (Bulgan Makh market, Sukhbaatar Makh market, Khuvsgul Makh market and Uvs Makh market). Further step by step other branch laboratories will be equipped with the necessary equipments.

1.12. **INFRASTRUCTURE AND TRANSPORTATION**

Step by step all the plants that are located in the local areas are imporeved by new technologies, main plant and the production workshop is equipped with the equipments "Hankook Fujee Industries Co.ltd", "Guangzhou Xuzhong Food Machinery Co.ltd", and has the capacity to refrigerate 1500-2000 kg of meat in one day. The



finished goods workshop is equipped with the equipments of Russian and Seydelmann factory's and has the capacity to produce 1000kg of sausage in one day.

The refrigerating equipments are from Hasagewa Japan, Dong Yong factory Korean, the slaughtering plants are equipped with the equipments of Russia, Korea, and Germany, and the laboratories are equipped with the equipments of Russia and China.

From local plants there are total 5 trucks delivering meat and derivatives to Ulaabaatar city's main plant, 3 of the trucks are equipped with refrigerators and 2 of them are ordinary trucks each of them has capacity of 20 ton, the 2 ordinary trucks are used in the winter time. Issuers' main plant is located in Ulaanbaatar city 5 floored building, the building consists from slaughter shop, meat processing shop, finished production shop, and storage refrigerators. In every floor of this 5 floored building there are storage refrigerators with the total capacity of 7000 tons of meat. From these storage refrigerators currently refrigerators located in the 1st and 2nd floor are in use. In every floor there are an control camer and the security of the storage is done by another company. Every time when the shifts changes they must match with the financial calculations. For distribution they use trucks with the capacity of 600-1000kg.

In order to make the transportation of the products faster "Just Agro" LLC connects the main plant with Trans-Mongolian railroad on January of 2011. Therefore the main and the other plants had an advantage to directly export their products from their main plants to customers.

Trans-Mongolian railroad connects with Trans Siberian railroad at Naushc city of Russia; also it connects with China through the boarder point of Zamiin-Uud.

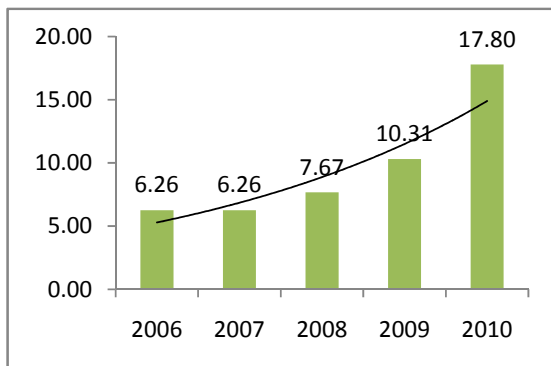


Picture 1: network of Trans-Mongolian railroad

1.13. **MARKETING**

According to our country the meat sales are divided into three ways: first one is through middle man, second one is through meat processing plants, and last one is exporting.

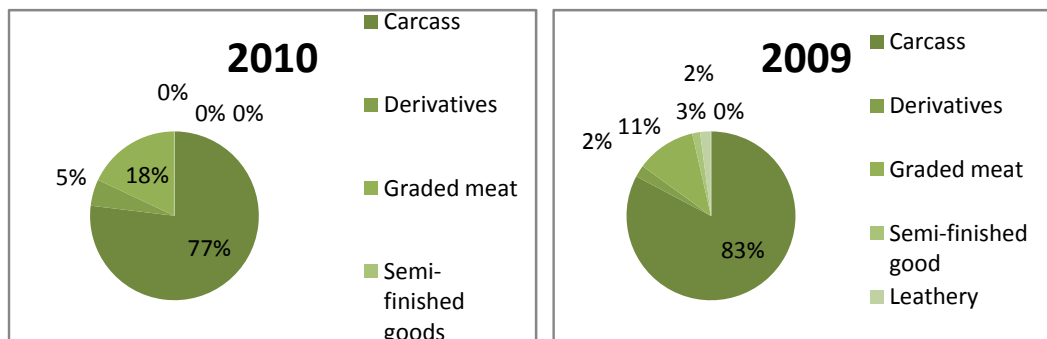
As a result of the technological advancement, capital investment, and the implementing policies and strategies of the issuer company helped the company's production and year by year the sales volume is increasing.

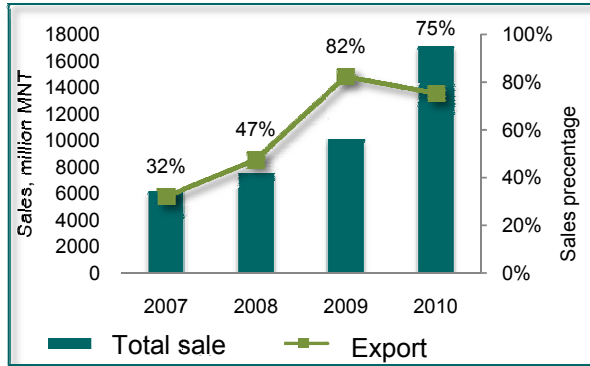


Issuer company is producing big cattle and small cattle carcasses, derivatives, graded meat, and semi-finished meat products at their main and 11 meat processing plants that are located in 11 province of Mongolia and supplying both domestic and foreign markets.

For last few years issuer company is focusing more on exports, innovate their technologies that are suitable for international standards and trying to increase their meat, meat product export. By the end of 2010 issuer company's export volume has been doubled compared with 2006 export volume.

Figure 9: Total sales structure





Last 2 years issuer company exported mainly beef and horse meats and it's because of the interest of the buyers.

For example, in 2009 they processed mainly beef and horse meat, exported 82% of total produced meats and supplied

derivatives and semi-finished goods for domestic market. In 2010 they still mainly processed beef and horse meats, exported 92% of the total beef and 97% of total horse meat that they produced and supplied the remaining meats to domestic market.

Table 11: Export volume (ton)

Exporting products	2007	2008	2009	2010	Total
Beef	474.6	1,186.8	2,205.1	2,559.7	4,426.2
Horse meat	651	239.7	475.3	1,911.4	3,277.4
Lamb	-	-	-	47.7	47.4
Dried beef	-	-	0.8	-	0.8
Finished goods	-	-	-	0.1	0.1
Total	1,125.6	1,426.5	2,681.2	4,518.9	

From 2007-2010 the exported meat, meat products are divided as following: 65.9% is beef, 33.6% is horse meat and the remaining percentages are lamb and other products. Issuer company generally trade their meat, meat products with Russia and Iran, 99.2% of total meat, meat products that are produced for last four years were supplied to Russian companies.

Table 12: Meat sales of Russia

	2007	2008	2009	2010	Total	Percentage
Ulaan Ud city, Buryatmyasprom	544.7	2,846.8	8,272.5	11,238.0	22,902.0	86.4%
Tuva	1,410.9	723.9	-	-	2,134.9	8.1%
Erkhuu city, "Sivmarjer" LLC	-	-	16.78	-	16.8	0.1%
Erkhuu city, "Ircutski" LLC	-	-	-	986.4	986.4	3.7%
Khagas, Abacan city	-	-	-	457.9	457.9	1.7%



From the table we can see that the main buyer of “Just Agro” LLC’s “Buryatmyasprom” plant of Ulaan Ud city, last four years total sales 86.4% was made with “Buryatmyasprom” plan.

“Buryatmyasprom” plant is cooperating with the issuer company for last 10 years and generally buys beef and producing canned beefs and supplying their domestic market. The buyer has 4 plants, 8 non manufacturing plants and the capacity to produce 130 thousand canned meats, 20 tons of sausages, and 10 tons of semi-finished products in one day.

Sales of the reserved meat:

Issuer company made an contract with the department of Ulaanbaatar city’s governor and started to reserve meat for the spring consumption of the population started from 2006.

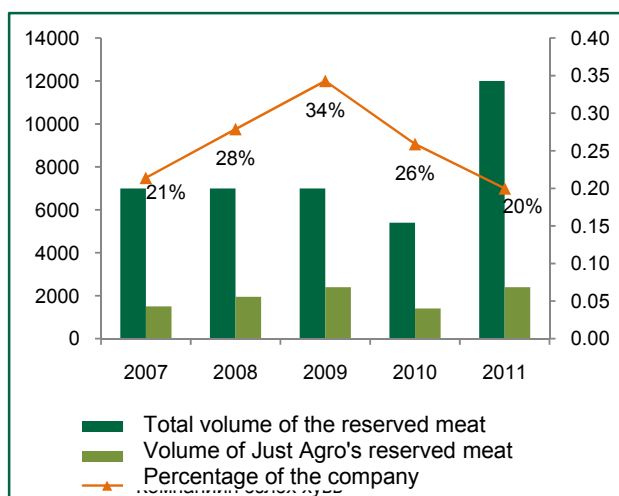


Table 13: Volume of reserved meat of "Just Agro" LLC

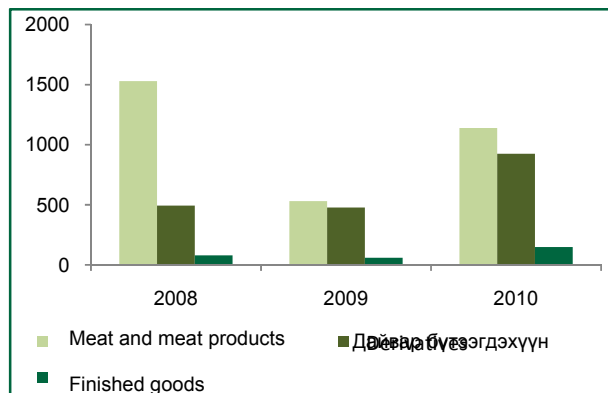
No	Meat type	2007	2008	2009	2010	2011
1.	Beef	350	350	150	550	150
2.	Lamb	1,150	1,150	1,770	150	1,770
3.	Chevon	-	-	480	700	480
	Total	1,500	1,500	2,400	1,400	2,400



Retail sales of meat:

Issuer company is selling buuz, dumplings, mince, smoked and normal sausages other products through their own brand stores and also through larger chain stores.

Issuer company has no future plan to develop this kind of business, because the sales volume is small and there are many competitors in this market.



From the last 3 years sales volume 60% is carcass and graded meat (3199.3 ton), 35% is derivatives (1895.3 ton), and 5% is finished goods (287 ton).

