

1.4. MARKET INFORMATION

30% of our GDP's are made from agricultural sector especially majority of them are made from animal husbandry products.

Agricultural production rate in GDP:

- Before the transitional period within 1981 to 1992 average was 17 percent
- After the transitional period within 1992 to 2000 average was 35 percent
- From 2009 to 2010 average was 23.5 percent

From last 3 years statistical information 40 percent of total employment, 10 percent of foreign trades are made within agricultural sector. By the employment rate agricultural sector's one of the important sector to our country's economy and it'll be same in the future.

Most of the agricultural productions are made from animal husbandry sector; most of the products are meat, wool, and cashmere production. Specific characteristic of animal husbandry sector is their traditional ways that throughout all the season keep moving following their pasturage, and water. In animal husbandry sector not only herders are participating but Government, middle men, financial service providing companies especially banks, animal hospitals, transportation service providing companies, wholesalers and retailers are participating in this sector. These things are somehow financial embarrassment on herders and producers.

By end of the 2010, within the country totally 32.7 million head of cattle's were counted this is 25.7 percent lower than previous years. This is because of the disaster occurred in 2010 and also in some province there were some animal diseases.

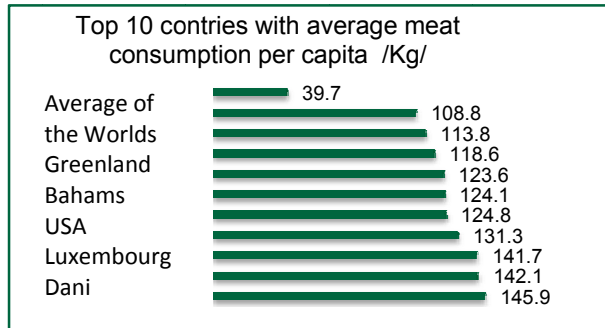
Table 1 Total Livestock /by type/

<i>No</i>	<i>Livestock</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
1.	Horse	2,239.5	2,186.9	2,221.3	1,920.3
2.	Cow	2,425.8	2,503.4	2,599.3	2,176.0
3.	Camel	260.6	266.4	277.1	269.6
4.	Sheep	16,990.1	18,362.3	19,274.7	14,480.4
5.	Goat	18,347.8	19,969.4	19,651.5	13,883.2



Total	40,263.8	43,288.5	44,023.9	32,729.5
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Meat, meat product market of Mongolia:



In 2010 our country's meat per capita was 10th in the World or one person is using 108.8 kg of meat in year this is 2.7 more than Worlds average consumption.

Figure 1 World's meat consumption

Consumption:

According to the reports by the statistical office and food research companies consumption of our country's meat, meat products are divided as following livestock meat 69.3%, pork 2.3%, fowl 0.4%, sausage, canned meat 15%, fish and sea foods are 13% of total consumption.

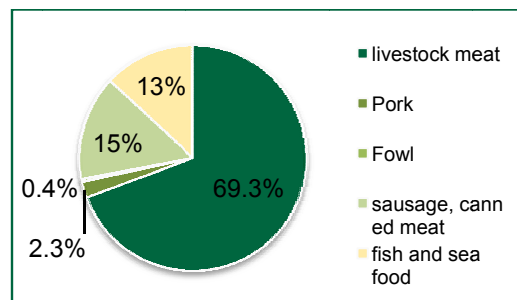


Figure 2 Consumption of meat and meat related products

From this information we can see that our country's main meat consumption is meat, meat products from livestock.

Supply:

Average consumption of our country is 13-15% of total livestock in one year, about 8 million head of cattle or producing 230,000 tons of meat and supplying the domestic customers. 10% of all the produced meat in the agricultural sectors are produced in meat processing plants it's about 23,000 tons of meat are produced by industrial way. From the statistical information it's only 14% of the total meat processing plants capacity. Main supply of meat, meat products are five kinds of livestock. For example:



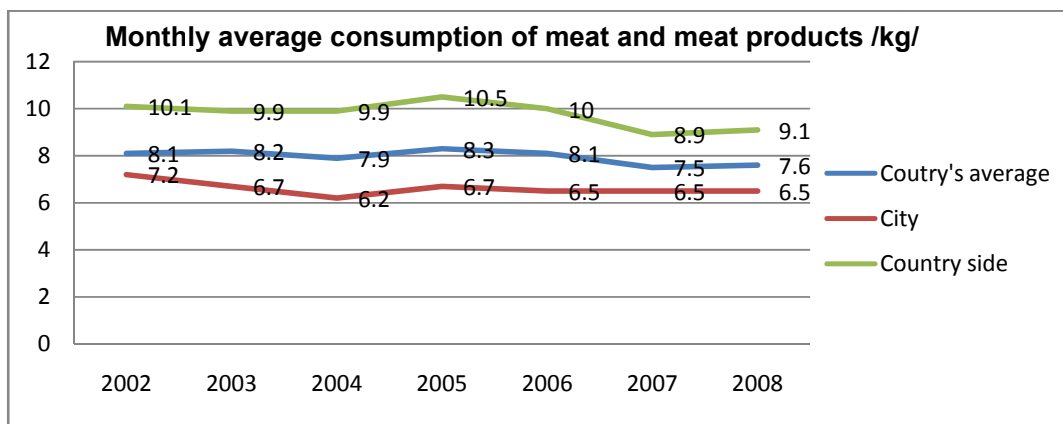


Total meat produced at Agricultural sector divided as following: 25-30% is cow, 35-40% is sheep, 15-20% is goat, and 15-20% is horse meat. By the research in 2009, after the calculation of flock overturn it's possible to produce more than 200,000 tons of meat from agricultural sector.

During last five years the number of livestock increased dramatically so that supply of livestock in food sector increased also the meat processing plants capacities increased. Considering the meat consumption by structurally the goat consumption in food increased related to the increase in price of cashmire and goat skin.

In 2010, country's monthly average consumption of meat, meat products were 8.4 kg, in Ulaanbaatar city it was 6.4 kg, one Mongolian monthly average meat consumption is 6.4 kg. By the increase of the population the demand for meat and meat products are increasing. From 1990 the population of capital city increased twice as before and according to 2010 statistics the population of Ulaanbaatar city reached 1161.8 thousand. There is an potential to supply the meat demand but the meat processing plants are operates as seasonally so it cannot fully use their capacity to produce meat. The evidence of this is that every spring the supply of the meat decreases and the price of the meat increases because of this inflation rate increases. So its important to process the meat by industrial way and store at appropriate cold storage and increase the storage period.

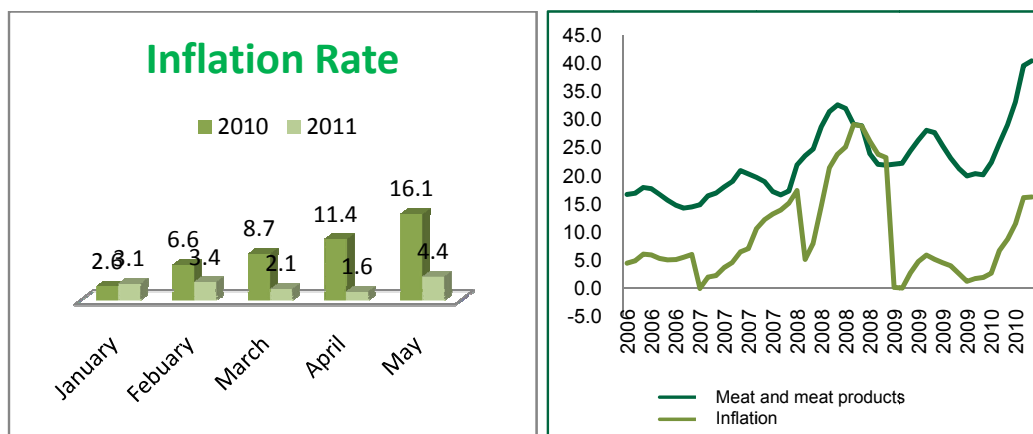




Meat price and Inflation:

Compering the inflation rate of Ulaanbaatar city's 2011 with 2010 the inflation rate decreased by 11.7 ops. The decrease of inflation rate can fully related to meat price. 90% of the inflation rate is derived from meat and meat products.

In April 2010 when the inflation rate exceeds from 8% the main thing that influenced was the increase of the meat price. Because of natural disaster and drought and heavy snow 7.5 million head of cattle died, it influenced the country's meat supply. The meat supply of Ulaanbaatar city decreased threefold compare to previous years and it influenced negatively to the meat price.

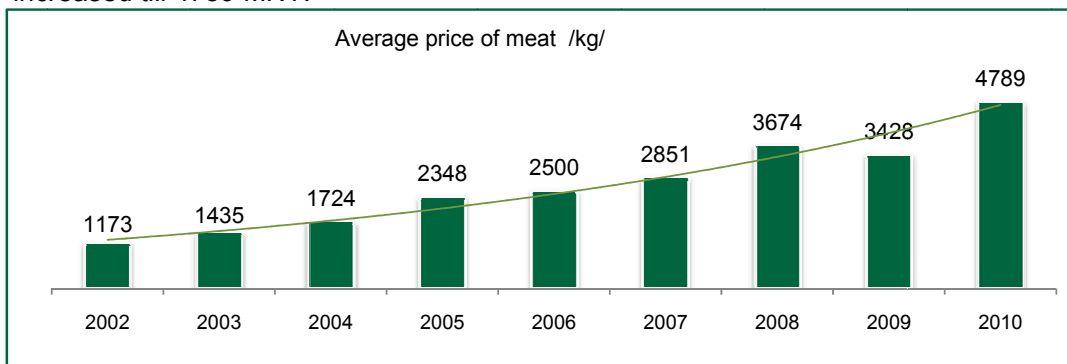


In figure 7 showed the relation and tendency of meat price index with inflation rate of 2006 to 2010. The figure shows when the price of meat is high then the inflation rate is also high and when the price is low the inflation rate is low. In 2008 because of World Financial Crisis the inflation rate increased.

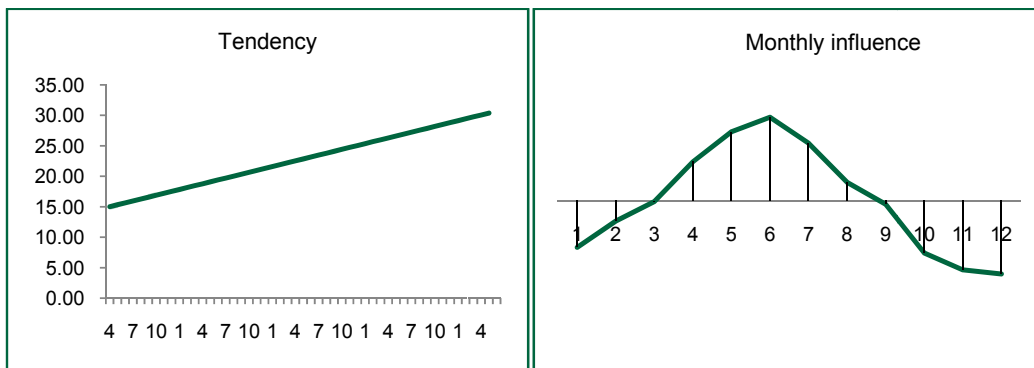


Meat price:

In 2002 the average meat price was 1173 MNT but in 2010 the average meat price increased till 4789 MNT.



By the research on price of meat, the price of meat increases from December to June and from June to December the price decreases, this is because of our country's weather, meat processing and the meat processing factories work as seasonal so the supply of the meat decreases in the spring.



The tendency of meat price is going to increase year by year.

Reserved meat:

One way to decrease the shortage of meat supply at every spring and supply the demand of customers fully is to reserve a meat. In 2006 our country's government took action according to Article 178 to reserve meat for spring and summer consumption and give bonuses to the companies that reserved meat.

Some statistical information about meat reserving:

In 2008: "Makh Impex" LLC, "Taij trade" LLC, "Mongol makh expo" LLC, "Makh export" LLC, "Just agro" LLC, "Eastern Cobi" LLC these companies reserved 7000 tons of meat totally.



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In 2010: “Just Agro” LLC, “Makh Impex” LLC, “Eastern Cobi” LLC, “Mongol makh expo” LLC, “Taj trade” LLC, “Makh export” LLC, “Tenger trade” LLC, “Davshilt trade” LLC, “West Mongol international” LLC, “Sooton” LLC these small and big sized 10 companies reserved 2800 tons of meat by their own capitals.

Table 2 Reserved meat

Year	Amount of reserved meat /ton/				Trade /ton/			Price of reserved meat /MNT/		
	Lamb	Chevon	Beef	Total	April	May	June	Lamb	Chevon	Beef
2010	Around 2000	Around 700		2800	1325	1475		2900	1900	
2009	5000	1400	600	7000	1000	3600	2400	2800	2100	2800
2008				7000	1300	2500	1500	2900		
					(III)					
					1700					
2007				3900				2100		
2006	1500	5000	500	7000				2100		

If calculate the consumption of meat and meat products of the people living in capital city is 186 ton per day. If calculate the consumption of reserved meat by the peoples buying power in spring its 7.4 ton per day. From the research in order to decrease the price of meat during the spring the capital city needs to reserve 11 to 16 thousand tons of meat, its supply of 50 to 80 day.

From 2008 to 2010 averagely 6 to 11 companies participated to reserve meat and received 6.3 billion MNT totally as a bonus. In 2008 totally reserved 7000 ton of meat and received bonus of 414 MNT for each kg. In 2009 received 340 MNT for each kg and in 2010 the government planned to gave 500 MNT for each kg totally equals to 2.4 billion MNT and depending on the companies meat reserving performance they gave 58% of the total budgeted capital.



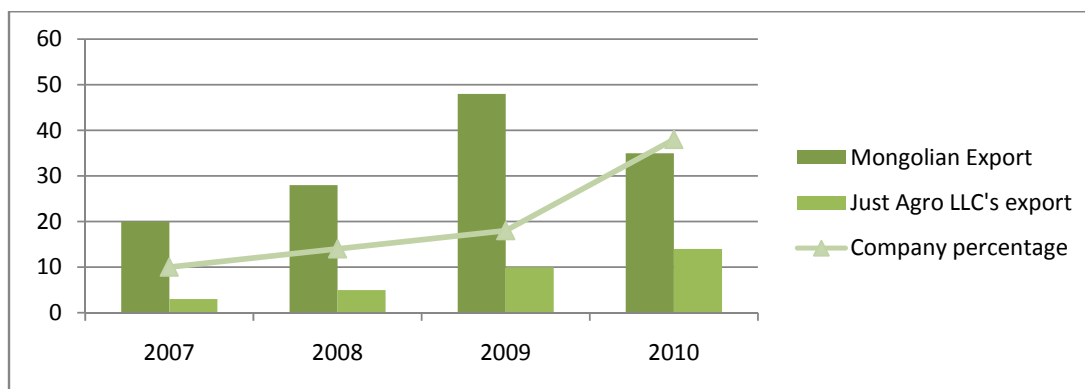
Foreign market and export:

Mongolian Government made an agreement to supply meat with the governments of Russia, China and Vietnam. In 2009 our country exported 8.8 thousand tons of beef; 8.6 thousand tons of horse meat and in 2010 exported 3.9 thousand tons of beef, 10.9 thousand tons of horse meat. Beef export decreased 55.9% from previous year. This is because in some eastern province there were foot and mouth disease so Russia banned their beef import. But horse meat export increased by 26.5% from previous year.

Table 3 Meat Export

Type of livestock	2007	2008	2009	2010
Horse meat	7,072.8	6,097.1	8,635.3	10,925.0
Beef	3,846.8	4,210.4	8,818.5	3,888.2
Total	10,919.6	10,307.5	17,453.8	14,813.2

Last 3 years meat export the following ten companies made 97% of the total exported meat; “Just Agro” LLC, “Sooton” LLC, “Tenger trade” LLC, “Makh Impex” LLC, “Eastern Cobi” LLC, “Mo Tuva” LLC, “Bumnomin” LLC, “EDGS” LLC, “Yurranzit” LLC, “Mongema” LLC. Meat importing countries standards, other requirements, transportation and other things are becoming obstacle to increase the meat export.



Population of Russia is 142 million, second largest meat importer after USA and with high economic growth. Our country's meat export only take 1% of Russia's meat import.

According to Russian statistical information from animal hospital one person's average consumption of meat is 81 kg in one year but as today Russian per persons consumptions is 62 kg. According to this information there are around 1.2 million tons of carcass meat market available so it's showing that there is high chance for meat processing companies to increase their export amount.



Competitors:

There are total 35 small and big sized meat processing plants are operating with the capacity to produce 90 thousand tons of meat by industrial way, but they are only using 20-30% of their total capacity and supplying 30%(23 thousand tons) of the big cities consumption. This means that most of the meat processing and the supplies are made by middle men. Majority of the meat and meat product producing companies don't have proper meat processing network, warehouses and capacity so they are more interested to directly sell it in the market. Issuer company is producing usually carcass meat, meat that removed from bone so there is less pressure from domestic meat producing companies. According to 2010's information there are around 70 meat, meat product producing plants are operating and 50 of them are located in Ulaanbaatar city. The products of these plants can be categorized as following:

There to:

- Carcass Meat
- Derivatives
- Graded meat
- Snag , sausage
- Canned product /preserves, beef and horse meat stew/
- Semi-finished and finished goods these are main categories that the products are divided

Most of the sales are carcass meat sales because customers buy it a lot. So meat processing plants are exporting carcass meat and also competing graded meat, snag, canned product, semi-finished and finished products market but it only consider as 10% of the total meat market.

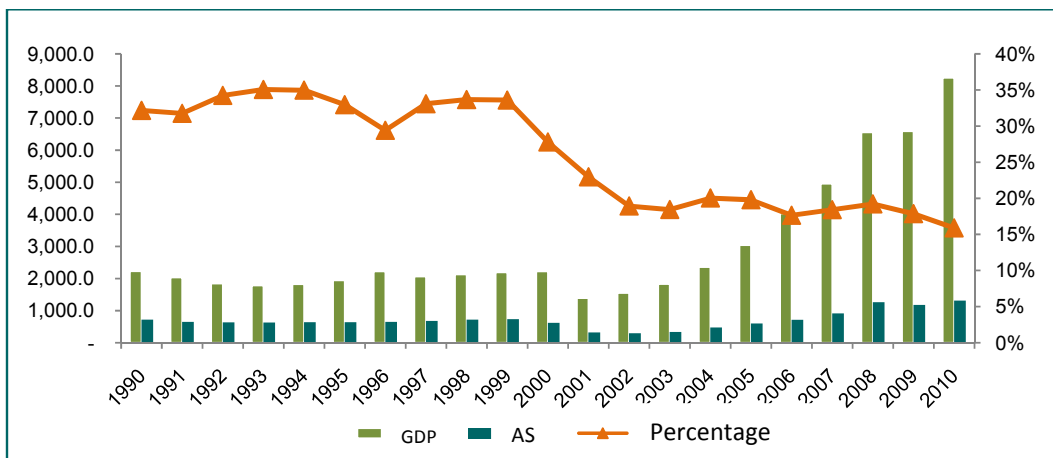
Issuer directly can't think that other meat processing plants as a competitor, because Issuer Company's main goal is to produce carcass meat and export most of it.



1.5. MONGOLIAN ECONOMY AND GOVERNMENT POLICY

In 2010 the increase of the GDP has surpassed the previous year's planned rate, and the mining sector has an advantage for country's economic growth.

The dynamic movement of GDP and the agricultural sectors production from 1990-2010.



As seeing from the graphs the Agricultural sector is stated to develop from 2001 but the GDP's continuously decreased.

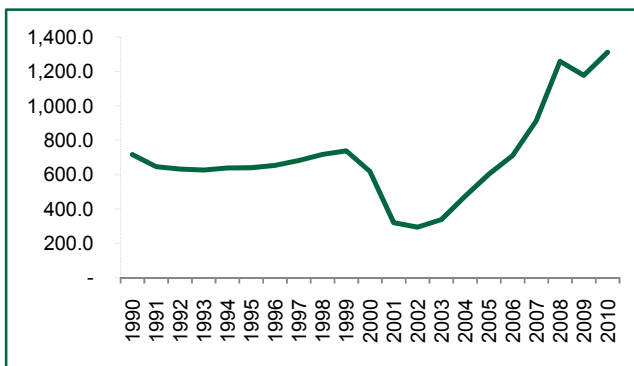


Figure1. Agricultural production dynamics, million MNT

From these graphs the Government need to focus more to develop the agricultural sector. Even the interest rate of individual's savings has went down, the loan interest rate has no change. It caused by bank and financial organizations` are

hesitating high expensed resources. It shows property and currency distribution is getting lost.

The structure of the economy is changing; the affect of themining sector's increasing. The difference between city and country sides are dramatically increasing so the migration to city is increased because of this unemployment, poverty rate is increasing. The sanitation and safety of foods are becoming more important rather than quality and standard.





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Government activity:

- Taking some steps to increase the workplace and train more specialized workers.
- The government is implementing some unified policies for food supply as meat reserving; meat processing companies are freed from VAT.
- As the mining sector is developing dramatically the government is focusing how to balance the economic structure so these activities are affecting positively for the issuers activity.