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# WAIFS OF WAR FOUNDATION

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## INVESTMENT MEMORANDUM

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### *SEABASS AQUACULTURE FARMING IN THE MEKONG DELTA*

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PRIVATE & CONFIDENTIAL

**This Memorandum is strictly Private & Confidential and for use only to those investors who agree to share some of the profits generated with the Waifs of War Foundation.**

#### **Investment concept**

This is a unitized investment program enabling both individual private investors and larger corporate or institutional investors to subscribe for units of commercial interest in the growing of sea bass fingerlings to a commercial size that can be readily sold in the domestic wholesale and international export markets.

#### **High yields and minimum returns**

The program offers attractively high yields on investment that is realized at two six month intervals per year when the seabass are harvested for commercial sale. The program has an exceptionally low risk factor, however, the program does bear certain risks of which all investors should be aware. This program undertakes to provide both a minimum return and commercial insurance protection to protect the investment in the event that certain risks materialize that are beyond the ability of management to control. Further details of these risks are set out in the following information together with Management's proposals to minimize and mitigate such risks.

#### **Units of investment:**

Each unit of investment is set at \$60,000.

*The Investor may subscribe for any number of units to suit their particular interests. The Investor should consider the benefits of co-investment in groups or larger numbers of units to lower Management costs, which will improve their returns on invested monies.*

**The investment:**

Each unit sum subscribed will provide the investor with the following:

- Use of a two (2) cage raft of suitable dimension and equipped to enable the successful growing of sea bass to a commercial size that can be sold in the domestic market or processed for sale in the international seafood markets.
- The supply of 20,000 fingerlings per cage.
- Feed and health products to enable the successful grow out of the fingerlings.
- Management, supervision and raft maintenance.
- Insurance protection against commercial risks.
- The application of leading technology in aquaculture farming.

**High returns:**

The Investor can expect to receive a profit distribution within one month of each harvest cycle equal to at least 12.5% of the initial investment at six monthly intervals thus offering a 25% return on each invested unit per year. Profit distributions could be greater depending on market prices at each harvest for domestic or export sale and in the Manager's ability to grow out the fingerlings with minimal mortality. A provision of 30% mortality is budgeted for, above which investors will receive either insurance protection for excess loss or a replacement of fingerlings lost above the 30% norm set.

**The Manager:**

Operational management of the program will be undertaken under a management contract by LiG Products Ltd ('LiG'). LiG is owned and operated by an American Aquaculture Specialist known for his success in this industry, who presently holds the following appointments or has undertaken the following activities in the industry:

- Chairman of the "Deep-sea Fishing Committee" of the ASIAN Fishing Federation. (AFF)
- Senior Advisor to the "Vietnam Aquaculture Alliance of Vietnam" (VAA)
- Senior Advisor to the "Vietnam Fisheries Society" (VinaFis)
- Co-Chairman of the "Vietnam-American Union for Promotion of Fisheries Development"
- Appointed by the Danish Consul to conduct the Fisheries Sector Presentation during the Danish Days Seminar for two years.
- Vice Chairman of the Agriculture / Fisheries Committee of Amcham.
- Organizer of the 1st Seafood Seminar of Amcham in Vietnam.

Financial management of the investment project will be the responsibility of an industry recognized Chartered Accountant or Certified Public Accountant.

**Management remuneration:**

Management will be compensated primarily through the successful sale of harvested products at each harvest cycle. It will also be remunerated by an incentivized system whereby it will share in any profit distributions to investors that exceed the minimum return of 25% per annum by sharing in any excess above 25% at 20% of the excess above 25% based on an initial investment of about \$60,000 per 2 cage raft set.

**Management charges will be as follows:**

The Management Fee is inclusive of all labor, supervision, insurance, raft maintenance, technology application and general overheads.

**Source of fingerlings:**

The primary raw material is the supply of sea bass fingerlings for growing purposes. These will be supplied by an associated nursery in which LiG has a commercial interest. Suitably fertilized eggs will be secured from a school of breeding seabass that have been developed over the past nine years by LiG and presently comprise 27 mature seabass breeders of which 20 are female and capable of producing between 45M to 65M fry per year. Fingerlings will be supplied at normal arms length prices obtainable in the open market. An alternative competitive supply source has been arranged should a situation arise whereby the nursery is unable to supply fingerlings when required for grow out purposes.

**Investor protection:**

The fry will be developed at the LiG nursery and when attaining the suitable size of approximating 4 cm to 6 cm, will be sold to the project for growing to commercial size. Furthermore, there will be an undertaking from the nursery that should the level of mortality at the growing stage exceed 30%, then the excess loss will be either covered by commercial insurance or replaced by the supply of additional fingerlings for growing out again. In this way, the Investor will be afforded some comfort and protection that its investment will yield the anticipated returns indicated in this Memorandum.

**Markets**

It is expected that most of the products will be sold internationally. 'LiG' will undertake the management of the fish cage farm under a contractual arrangement and will also be empowered to make sales in the local market in Vietnamese Dong and to export market which will optimize the returns to investor.

PRO FORMA FINANCIAL RESULTS

SEABASS FARMING

	No. of 2 x cage rafts				
	1 Notes:	10	50	100	
( Expressed in US\$)					
INVESTMENT	60,000	600,000	3,000,000	6,000,000	
<i>ANNUALIZED RESULTS BASED ON TWO HARVEST CYCLES PER YEAR</i>					
Sales	114,000	1,140,000	5,700,000	11,400,000	1.
Cost of sales and expenses:					
Fingerlings	20,000	200,000	1,000,000	2,000,000	2.
Feed	28,000	280,000	1,400,000	2,800,000	3.
Processing costs	22,000	220,000	1,100,000	2,200,000	4.
Mg't & Opns Fees	28,500	228,000	997,500	1,425,000	5.
TOTAL COSTS	98,500	928,000	4,497,500	8,425,000	
NET PROFIT	15,500	212,000	1,202,500	2,975,000	
Annual return on Investment	25.83%	35.33%	40.08%	49.58%	
Minimum return	25.00%	25.00%	25.00%	25.00%	
Excess return	0.83%	10.33%	15.08%	24.58%	
Investor share of excess	0.42%	5.68%	9.80%	17.20%	
Management incentive share	0.41%	4.65%	5.28%	7.38%	
Total return to Investor	25.42%	30.68%	34.80%	42.20%	

Notes to Pro Forma Financial Results:

1. Based on export sales at approx. \$5.50 per Kg. in filleted form after processing and allowing for 20% mortality during growing and 50% weight remaining after processing. Sale of waste material is included in sales.
2. Cost of 40,000 fingerlings at \$0.25 per fingerling per raft per six month growing period.
3. Feed costs per 40,000 fingerlings at 2 Kg per fingerling per growing period.

4. Processing costs include labor, freezing, packing, inspection, delivery, stow and processing management at \$1.00 per Kg.
5. Management charges are based on a % of sales and include labor, security, insurance, technology application, management, supervision, general overheads of this aquaculture project and raft maintenance at a rate noted herein.

*NB: Some of the harvested seabass may also be sold in fresh form in the domestic wholesale market at prices averaging \$2 per kilo, but will not require processing. This will eliminate the 50% waste in weight that derives from processing into frozen fillets for the export markets and some \$0.60 per Kg of the processing charges. Most of the production however, is expected to be exported.*

#### **Seabass species:**

The species of seabass that will be farmed (*Lates Calcarifer*) is one of two known species in the world. The other, known as Chilean Black Seabass, is found in South America. The particular species selected has a known worldwide market appeal and is commonly found on Chinese restaurant menus and in the US and European market place. Historically, the species has been sea caught almost to extinction but the opportunity now arises through proven aquaculture techniques to farm seabass successfully and to thereby provide a sustainable source of supply to satisfy world market demand. Seabass offers the consumer an alternative flavor in seafood to tuna and salmon that are presently the best-known and most popular fish dishes. Seabass can be served in many ways and to cater for ethnic tastes.

#### **Customers:**

Owing to its broad market appeal, seabass is in high demand in restaurants, supermarket chains and in the wholesale and fresh retail markets. The company has a growing list of customer prospects to supply as soon as volume production starts up.

#### **Processing:**

The management has arranged for the processing of the harvested seabass with leading seafood factories that are suitably equipped and accredited under HACCP standards that will meet the demands of major exports markets for quality control and other export compliant issues.

#### **Risks associated with seabass farming:**

The following are the most likely risks associated with seabass farming.

- Storm, fire, tempest and flooding.
- Water contamination from oil and chemical spills etc.
- Theft
- Vandalism
- Disease outbreak
- Above normal mortality rate of the seabass fingerlings.
- Major variations in selling prices and processing costs.

All of these risks will be insured by a leading insurer against possible loss. Excessive mortality will be catered for by both commercial risk insurance and the restocking of lost fingerlings by the supplier nursery if mortality levels exceed 30%. Selling prices and

costs of processing and operations will be tightly controlled by management as part of its intimate knowledge of the markets and the industry. Management will be primarily recompensed on a success basis together with the investors at each harvest period.

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#### **Other terms and conditions of investment**

1. Monthly reports will be sent to the Investor & all investors providing a series of progress reports during the growing period leading up to harvest. This will include size and weight measurements, mortality rates, feed consumption and topical industry data.
  2. At each harvest, the Investor can expect to receive a full financial and operating report on his cage production, weight harvested, selling prices, operating costs and a general financial accounting of his profits from the harvest.
  3. A Investor representative will be allowed to visit and inspect Investor's cages at any time with 48 hours notice to the Manager for transportation & reception to be arranged.
  4. The Investor may elect at each harvest to continue its investment or may withdraw after any harvest according to their own plan.
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## Company details

**Waifs of War Foundation is registered in Australia and Vietnam.**

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