

Socialist Republic of Vietnam

**SOCIALIST REPUBLIC OF VIETNAM
SURVEY ON 3PL (THIRD PARTY LOGISTICS)
TRANSPORTATION SYSTEM**

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Japan International Cooperation Agency (JICA)

**TSUKISHIMA SOKO CO.LTD
Forval Corporation**

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1. Project Summary

(1) Project Summary

This project is to offer “High Quality Commodity Distribution” which has been built up and accumulated at Tsukishima Soko Co., Ltd. for 60 years since the establishment of the company to Vietnam southern region of Ho Chi Minh City and its neighboring areas.

Tsukishima Soko has experience and business records corresponding to diversified needs of the time for commodity distribution circumstances in high economic growth of Japan under the company policy of “Contribution to society through commodity distribution”.

This project is to aim at the final goal of distribution to deliver commodities securely to the end users and final consumption points in Vietnam, while developing “Cold Chain” which is the unexplored region for Vietnam at the present time and the expanding business areas with utilization of our experience and business records.

For 3 years of initial stage, this project aims to supply the cold chain to the stake holders handling food materials as the major merchandise materials consumed in Vietnam.

This research revealed that there are already many Japanese affiliated commodity distribution enterprises in Vietnam, but also made it clear that there are no such enterprises in the business field that Tsukishima Soko intends to enter.

They have different purpose in back ground that is to handle port distribution along with port development proceeded by Vietnamese government or to handle commodity distribution for other Japanese affiliated leading enterprises or major assembly manufacturers who moved in Vietnam market.

Another point revealed by the research is that majority of commodity distribution to the end users and final consumption in Vietnamese broad base market is traditional and yet in conventional style.

Under consideration that there is a wide quality difference between what Tsukishima Soko supposes and the existing traditional commodity distribution, and future changes in consumer trends caused by economic growth in Vietnam, we determined that it is worth advancing business in the market where exists no competing enterprises.

It is regarded as normal in Vietnam market that the ordinary commodity distribution system as in Japan has not yet been introduced, instead this business field of Vietnam has its own traditional commodity distribution system now.

Therefore, it is necessary to act continuous initiation, spread, and sales promotion, and to plan a step-by-step business development for successful project.

Under this circumstance, Tsukishima Soko determined to gradually realize “Cold Chain” and “Secured and Safe Third Party Logistics (3PL) Distribution” which fundamentally support the Vietnam economy development through continuous popularization and sales promotion activities.

We determined to establish a local body corporate for refrigerated warehouse, pickup and delivery facility, man power education, management system construction and etc. that are essential elements for this project development.

At the same time, we will establish a joint venture company (hereafter called “Our Company”) with local enterprise, Trasimexco - Supply Chains and Agency Services J.S Company (hereafter called “TRA-SAS”) who are selected in this research, since it is necessary to have an influential local counterpart in order to develop this business under Vietnamese regulations related to the warehouse industry.

Each roll of Tsukishima Soko, TRA-SAS and Our Company is introduced in Chart 1.1 Role List of Each Company.

Chart 1.1 Role List of Each Company

Enterprise Name	Role
Tsukishima Soko	<ol style="list-style-type: none"> 1) Investor to the joint enterprise 2) Supplying cold chain technology 3) Supplying 3PL business (distribution technology: Storage, Management, Delivery) 4) Dispatching a representative (for management) 5) Dispatching a personnel from Japan for human resources education
TRA-SAS	<ol style="list-style-type: none"> 1) Investor to the joint enterprise 2) Supplying land for warehouse (loan to the joint enterprise) 3) Supplying and construction of office equipment, warehouse facility, refrigeration facility (loan to the joint enterprise) 4) Supplying delivery vehicles (motorcycles and trucks for pickup and delivery) 5) Sharing and supplying TRA-SAS human resources (for pickup and delivery staff) 6) Offering existing customer channel and local network
Joint Venture Enterprise	<ol style="list-style-type: none"> 1) Refrigerated warehouse business operation 2) Maintenance and management of refrigerated warehouse 3) Marketing (finding customers, maintenance & management) 4) Man power education
Remarks	<p>TRA-SAS will make new equipment investment such as</p> <ol style="list-style-type: none"> (1) Land for warehouse (2) Refrigerated warehouse facility (3) Vehicles for transportation (4) Office for the joint enterprise, and etc., and lend their existing equipment to the joint enterprise.

(2) Business Model

We will develop “Food Material Cold Chain” in the region near the Vietnam final consumers, particularly Japanese affiliated restaurants in the initial 3 years of deployment into Vietnam.

Such cold chain does not exist in the local Vietnam market, so we will strengthen necessary materials and equipment, education for human resources, and marketing system.

After the 3rd year, expand business development to producers, food processors, whole sellers making use of the built up system and experience in these initial three years.

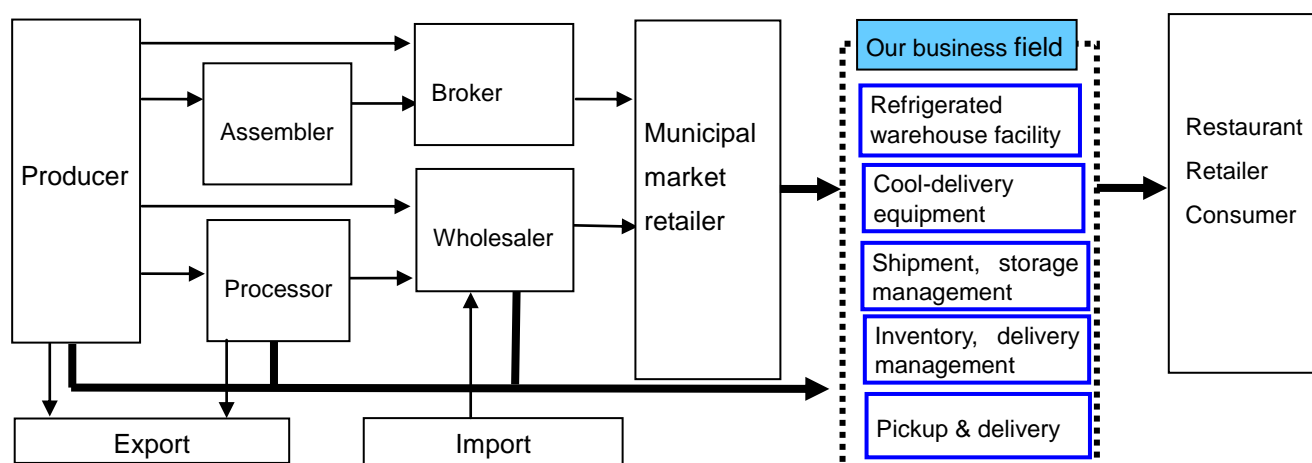


Figure 1.1 Our Project Scope Map on Distribution Value

2. Project Purpose

(1) Project Purpose

There is no sign of touching sales bottom since small and medium sized commodity distribution companies find their competitiveness only in low cost rather than in good quality. This is because absolute distribution volume is shrinking under declining Japanese economy, cargos are under oligopoly by leading commodity distribution enterprises and, the small and medium sized commodity distribution companies are their subcontractors. Tsukishima Soko is involved in the same environment.

On the other hand, other rapidly growing neighboring Asian countries have forecast of further growth backed by economic development under stable government and population increase.

And distribution cargo volume shall certainly grow with prediction of the similar environmental trend that Japan experienced in the past period of rapid economy growth, while international economy cooperation between Japan and other Asian countries is now under way.

However, current developing countries' commodity distribution situation does not catch up with Japanese standard quality.

The same environmental change may happen in Vietnam, the country we have chosen as the project developing region where stable economy growth and population increase create further development. It will be natural trend that distribution quality innovation is required corresponding to the environment changes.

Tsukishima Soko have coped with economic and social changes in Japan, escalated international competition, information-communication technology progress, and diversified values among the people and so on.

The purpose of this project will be (1) "Profit Expansion through new market development" by moving our experience, business records and know-how to Vietnam and, (2) "Social Contribution for Vietnam" by transferring Japanese excellent commodity distribution technology to Vietnam.

(2) Compatibility to Development Challenges and this Project's place

There has been the 1st and 2nd Vietnam booming in early 1990's and from 2004 in the FDI (Foreign Direct Investment) by the Vietnamese government driven social-economic development policy. On its background lies the Vietnam's stable economic growth.

Also in the field of our project, we are to be determined that it is natural that the similar commodity distribution quality like as in Japan will be required. This project will be some contribution to Vietnam's further economic progress in the situation that commodity distribution volume is getting large along with economic growth, if we offer our best commodity distribution service by full use of our cultivated know-how for years and the elaborate use of sensible response capabilities of typically Japanese and of specifically Japanese affiliated small and medium sized companies.

In addition, the construction of service system to deliver fresh and safe agricultural and fishery products to the consumers will be expected to contribute to "Safety and Security of Food" for the people which has been recently recognized as a big challenge in Vietnam. Furthermore, it will be also expected to contribute to improve living earning for agricultural and fishery village regions where there is a big gap in income standard compared with urban areas and to activate communities through enhancing local product sales.

3. Country, Region and City to Enter into

(1) Area of Business Activities

Country:	Socialist Republic of Vietnam, Southern Region
City:	Ho Chi Minh City
Business area:	Ho Chi Minh City central area Le Thanh Ton Street, Dong Khoi Street restaurants complexes and, their neighboring areas

(2) Reason to select the Area (Feasibility)

a. Advantages of the country and areas

The Vietnamese government set the national goal to achieve industrialization by 2020 under “Ten-year strategy for social and economy development (2011 ~ 2020)” and “Five-year plan of social and economy development (2011 ~ 2015). Especially in the Ten-year strategy plan, it is aimed to construct industrial structure of year 2020 of 85% of GDP for mining, industry and service including 45% GDP for high technology industry.

Based on this policy, an aggressive foreign investment invitation lead by the Vietnamese government is expected and, the foreign investment regulation easing is also expected in the course of AFTA (Association of South-East Asian Nations Free Trade Area) which will be established in 2015.

Government lead economy policies have resulted continuous and stable Vietnamese economic growth. Its effect on unemployment of Vietnam shows recent lower trend as in “Chart 3.1 Unemployment Rate Trend”.

Vietnamese GDP per capita shows steady increase for example, 28% in 2011 from 2009, together with increase trend of disposable income per person. Consequently this situation is going to create middle-income group.

In Ho Chi Minh City in southern region where Tsukishima Soko has the plan for project development, DGP per capita exceeded US\$3,600, and the middle-income group population is growing under increasing disposal income per person.

Ho Chi Minh City is the largest metropolis of 8 million populations in Vietnam, and is anticipated for further progress in commodity distribution as the consumptive economy area. The Vietnamese government is aggressively developing distribution infrastructure (land, sea and air) within Vietnam and to/from neighboring countries according to the national economy expansion. In port of the area where Tsukishima Soko have the project development plan, port development is under progress for the purpose of sea lane expansion within southern regions under the name as “Development Plan for Vietnam Seaport System Master-Plan for General and Container Ports” lead by the Vietnamese government.

As for land rout, although the largest city Ho Chi Minh at this moment cannot cover the tendency of increasing distribution volume due to population expansion, there are advancing road construction and improvement for the major arterial road, state rout No.1 for Cantho via Hanoi starting from Ho Chi Minh circuit rout, widening road from Ho Chi Minh for the northeastern industrial park complexes, Bien Hoa and, construction and maintenance for other routs radiating outward from Ho Chi Minh like as state rout 22 from Ho Chi Minh to Cambodian border, northbound rout 13, and southbound rout 50.

Progress of construction of roads that can cope with rapid increase of cargo volume resulted from economic growth can manage national commodity distribution flow volume under expansion trend.

The area with these back grounds can be determined that advantage for project development can be maintained under the prediction of further scaled flow of “People, Products and, Fund”.

Chart 3.1 Unemployment Rate Trend (unit: %)

Year	2009	2010	2011
Vietnam	4.60	4.30	3.60
Japan	5.60	5.60	4.59

(Adapted from: JETRO, Ministry of Internal Affairs, Statistics Bureau data 2012)

Chart 3.2 Vietnam & Ho Chi Minh City GDP per person (unit: US\$)

Year	2009	2010	2011
Whole Vietnam	1,069	1,173	1,374
Ho Chi Minh City	2,606	2,855	3,600

(Adapted from: Vietnam General Statistics Office, Ho Chi Minh City Statistics Dep. 2012)

Chart 3.3 Recent Vietnam Major Region Commodity Distribution Volume Trend
(Unit: million Tons)

Year	2009	2010	2011
South	127.5 (54.3%)	129.5 (49.9%)	138.8 (49.5%)
North	79.5 (33.7%)	88.8 (34.2%)	102.4 (36.5%)
Center	28.2 (12.0%)	41.3 (15.9%)	39.2 (14.0%)

(Remarks: figures in bracket are rate per whole Vietnam)

(Adapted from: BaRia-Vung Tau Province, Commerce & Industry Dep.,
Traffic & Transportation Dep.)

Chart 3.4 Prediction of Future Cargo Distribution Volume (unit: million Tons)

year	2015	2020	2030
North	216 (34.4%)	362 (32.0)	583 (29.0%)
Central	142 (22.6%)	302 (26.6%)	439 (21.9%)
South	270 (43.0%)	469 (41.4%)	986 (49.1%)

(Remarks: figures in bracket are rate per whole Vietnam)

(Adapted from: BaRia-Vung Tau Province, Commerce & Industry Dep.,
Traffic & Transportation Dep.)

b. Compatibility between Challenges to Development of the Country / Area and Our Project

Vietnamese economical infrastructure, social infrastructure and educational infrastructure are yet weak while rapid growth is still in progress. In order to forge ahead with making foundation of the country for the national goal of “Constructing Industry-Oriented Nation” by the Vietnamese government, they are aggressively invite foreign investment enterprises including Japanese affiliated companies to promote development of natural resource, automobile, electrical apparatus, and precision device industries and so on. Consequently foreign companies are so active in Vietnam.

It resulted that a lot of employment opportunities have been created and the people's income has been improved.

The national income increase makes consumer habit raise, then facilitates increase in consumption expenditure for TV, refrigerator, and living consumer goods etc. This creates positive growth cycle to support the robust economy.

It is essential to construct the system that "The goods produced" are "properly delivered to the users" as the standard of commodity distribution foreseeing the case when transition to the mass consumption society comes true in Vietnam.

For example, when we see current situation of the food and commodity distribution in Vietnam, issues such as misdelivery and delayed delivery happen all the time in actual trades although Vietnamese people's major shopping channel is conventional market and privately owned shop for food.

At the same time, its situation is far from that is required in Vietnam Food Hygiene and Safety Law (Ordinance on the hygiene and safety of food).

We believe that our project in the region will support the base of Vietnamese people's living by offering "Secured and Safe Commodity Distribution", also will contribute to Vietnamese farmers through modernization of domestic distribution of crops, vegetables produced from Vietnamese rich land of 8.7 million ha. (Adapted from Vietnam General Statistics Office data 2011)

We also believe that it will be a critical element to spread the system, "Products safety produced" are to be "Safely stored and managed" then to be "Securely delivered" to the users through this project for the purpose of Vietnam to advance toward the developed country, in the view from Vietnamese export that the items related to "Food" like as marine products, rice, coffee have been enjoying export growth; according to Vietnam General Statistics Office Custom General Office data of 2011 shows increase by 21.9% marine products, 12.6% rice, and 48% coffee from the previous year and also in the view point of future economy cooperation with Asian countries surrounding Vietnam.

Furthermore, human resources will be cultivated to be capable of building commodity distribution in Japanese quality, and further economy growth will be ensured by support of Japanese quality commodity distribution for national consumption.

4. Investment Environment

(1) Purpose of Investment Environment Research

The purpose of this research is to investigate feasibility if "Profit Expansion through new market development" and "Offer of Secured and Safe Third Party Logistics (3PL)" can be achieved in Vietnam by transferring our commodity distribution technology to Vietnam, and if it will contribute to the solutions for the challenges to development for Vietnam.

Therefore, this research focuses on Vietnamese social and economic situation, related regulations and market environment of the region of our project.

(2) Objects of Investment Environment Research

This research was carried out to Vietnamese governmental organizations, local Japanese affiliated enterprises, local national investment enterprises, Japanese affiliated service companies and Japanese affiliated restaurants.

The area covers Vietnam's southeast region, particularly Ho Chi Minh central area, and its neighboring areas.

Chart 4.1 Research Objects

Category	Objects
Vietnam governmental organizations	<ul style="list-style-type: none"> * (FIA) Vietnam Ministry of Planning and Investment, Foreign Investment Agency * (IPC) Vietnam Investment Promotion Center * (GSO) Vietnam General Statistics Office * (VCCI) Vietnam Chamber of Commerce and Industry * BaRia-VungTau Province, Commerce & Industry Dep., Traffic & Transportation Dep. * (JETRO) Japan External Trade Organization, Ho Chi Minh Office
Private Sectors	<ul style="list-style-type: none"> * Japanese affiliated restaurants (Ho Chi Minh city center area) * Japanese affiliated commodity distribution, warehouse companies * Japanese affiliated service companies * Local food processing companies * Municipal Markets

(Adapted from: data rendered by the research group)

(3) Details of Investment Research

Chart 4.2 Research Action Plan

	Period	Description
1st	Oct. 15, ~ Oct. 19, 2012	Current situation research on Vietnamese investment environment (investment environment research, related regulation research)
2nd	Dec. 10 ~ Dec. 15, 2012	Vietnam commodity distribution market research (market research, competition research, target research)
3rd	Jan. 15 ~ Jan. 18, 2013	Vietnam commodity distribution market research (target research)

(Adapted from: data rendered by the research group)

(4) Outlook of Investing Country, Related Regulations and Market Research

a. Research of national disposable income trend

Increase rate of Vietnamese disposable income per person is listed in the upper rank among other ASEAN countries where their DGP and disposable income per person is in increasing trend. It is predicted that the population middle income group will show steady increase affording to buying durable consumer goods like as automobile and motorcycle, and living consumptive products despite it is depending on future economic growth and scale of population increase.

c. Related Regulation Research (Food Hygiene & Law complied with Goods Quality Law)

The fundamental concept for food safety in Vietnam is to be complied with when our project is carried out.

Vietnamese laws legislate products quality management by “Law on the quality and goods” to let manufacturers and companies handling products “ensure safety against life including human, and environment and have a duty to improve products quality, competitiveness and productivity.”

This law is applied to the field of foods as in “Ordinance on the hygiene and safety of food” regulating “to ensure hygiene and safety of the food products where they are manufactured or sold.” And at the same time, every corporation and person who produces and/or sale food shall comply with these regulations regardless they are local or foreign.

The objects to be managed for quality are extended from product itself, packing, package, transportation, storage up to management system in these laws.

However actual situation of current commodity distribution in Vietnam is that foreign investment companies including Japanese affiliated are taking measures complied with these regulations, but in the areas near the final consumers and point of consumption, and also in the field handling food, there is eventually no regulations complied with.

It is rather far from the controlled cold chain which is common standard in Japan.

d. Commodity Distribution Foreign Investment Restriction & Related Regulations

According to the present Vietnamese foreign investment laws, “Storage and Commodity Distribution” business which is the base of ours is under restriction for investment. Foreign investment rate is limited as 51% or less for storage service, container warehouse service.

And the license restriction rate to the transportation service especially for commodity transportation for inland and water channel should be 49% or less.

At this moment, this project is expected to be developed by establishing a local joint venture company as of warehouse service and container service on the registered license so that as a majority shareholder, we set contract conditions including the right to refuse important matters and the right to elect directors securing the majority of investment rate of 51%.

In future Vietnam, there have possibility of amendment of such foreign investment laws depending on environmental change in the course of economic corporation among ASEAN countries and other nations. Therefore movement on regulation amendment is to be carefully watched.

e. Commodity Price Increase and Manpower Cost Environment Research

According to Vietnam General Statistics Office, CPI (Consumer Price Index) of April in 2012 was 10.5% from the same month the year before. It was lower than the market forecast rate of 11.9%. And the inflation continues slow compared with the previous month rate of 14.2%, however the commodity price increase is still in high level.

On the other hand, the trend of minimum wage of foreign investment companies was 200million Dong in 2012, which is twice as much of year 2010. Since consumer commodity price index and wage increase will affect the project, enough attention is to be paid to reflect to the project planning.

(5) Competition Research

At the initial stage of this project (for three years from start), main target customers are Japanese affiliated restaurants. As for local small and medium sized super markets and retailers, the commodity distribution system built up in the initial stage of the project will be developed in the 4th year and onwards.

This research focuses on competition relation around these main target companies as introduced above.

a. Japanese Affiliated Commodity Distribution Companies

There are 35 companies (excluded local representative offices and companies before license registration outside of this research) of Japanese affiliated commodity distribution enterprises already entered into Vietnam’s southern region market. They are mainly handling forwarder work, bonded warehouse operation and, distribution to leading enterprises. Most of these Japanese affiliated commodity distribution companies’ purpose is to perform distribution within Vietnam and to act as a contact front for import and export from/to Japan.

In the business field of consolidated (diversified commodity & frequently ordered) distribution within Vietnam and city areas, some Japanese affiliated companies have their plan to move in. Their main targets are Japanese affiliated companies and foreign leading enterprises, but not to our targeted field of food materials for restaurants.

Details of the local business of these 35 Japanese affiliated commodity distribution companies are researched. After the research whether their mail business is international or domestic transportation, and if mainly for chartered or small package consolidation, there are no competitors to the project of ours.

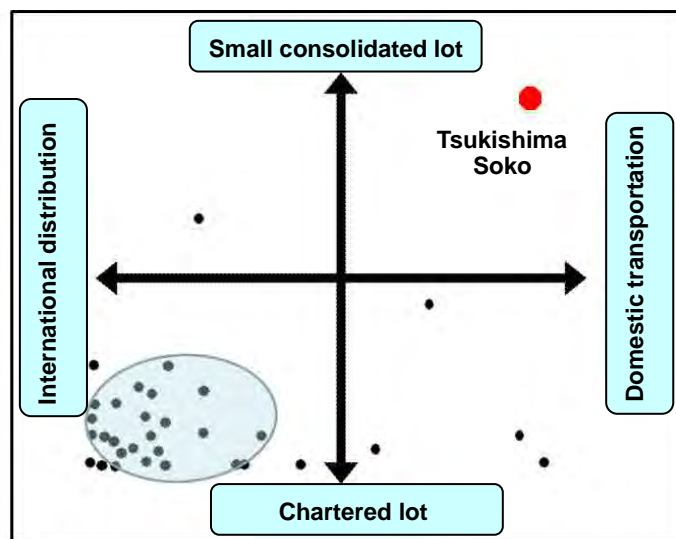


Figure 4.1 Japanese Affiliated Distribution Company Comparison (from the research report)

b. Individual Contract Buyer, Municipal Market Retailer

Existing procurement channels for restaurants are roughly classified into (1) Buyer and (2) Municipal market shop and whole seller. These two channels will be our competitors.

Chart 4.5 Hood Procurement System List

System	Buyer	Municipal market & retailer
Contractor	Individual person	Individual person & company
Procurement Source	Municipal market	Local food processor
	Hoof material wholesaler	Food material wholesaler
	Local retailer	Importer

(Adapted from: data rendered by the research group)

(1) Buyer (Procurement person with whom each restaurant makes contract)
<p>Food material procurement channel based on individual credit. Each restaurant selects individually a “Buyer” who undertakes individual purchase.</p> <p>Basically the buyer who undertook foodstuff procurement purchases the food material from municipal market retailers of his own trade relation, and makes delivery for each order. In case that the consigned item is out of stock, it will be purchased from another retailer in the municipal market. Since there are no stable suppliers, the price (of actual food purchase) fluctuation is the concern of the restaurants.</p>

(2) Municipal market retailer & wholesaler
<p>A procurement channel for necessary food material where restaurants have individual trade with a retailer in a municipal market or with food material wholesaler who purchase and sell these food materials.</p> <p>The research of Ben Thain market found 300 of such shops.</p>



Figure 4.2 Pictures of Municipal Market Store & Wholesaler

Chart 4.6 Explanation on Figure 4.2 picture No.

(1) Raw meet (beef)	Purchased by the retailer	Specialized shop for specified item
(2) Food sold by measure	Measured by each order	Buyer buys from similar shop
(3) Ice for delivery	Ice and raw meet packed in a plastic shopping bag for delivery	Depending on volume, use foam polystyrene boxes.

(Adapted from: data rendered by the research group)

(6) Target Research

a. Target selection reason

The main business field where leading Japanese affiliated commodity distribution enterprises have already in the market is forwarder business which mainly consists of application document procedure for container (including consolidated container), bonded warehouse and warehouse rental. Further to say, they have background that they are requested to act as the commodity distributors by Japanese affiliated company or manufacturers affiliated who are already entered into Vietnamese market.

We do not target such business field but aim to improve commodity distribution quality and develop business nearer to the final consumers and consumptive areas that such leading distribution companies do not touch.

As the result research by the dispatch of our company staff member to Vietnam for months, it has been confirmed that Vietnamese people's lifestyle, consumer living and consumption mind will be reaching to the level of the developed countries with high possibility. This is because why the people's life consciousness is changing under continuous economy growth and increase of middle income group population.

At the same time, it is confirmed that further health-oriented and brand-oriented behavior, and recognition of safe food will be advanced, whereas Vietnamese commodity distribution related to "Safety of Food" have many issues to be challenged.

b. Commodity Distribution Situation and Operation

[Local Restaurant]

Number of Japanese food restaurant and Japanese affiliated restaurant is more than 150 as of 2012. It is under increasing trend. Major restaurant customers are Japanese representatives, business travelers and tourists. Recently Japanese residents and travelers are rapidly increasing due to more Japanese companies are moving into Vietnam recently.

Number of members registered in Vietnam Japan commerce and industry association is 435 in north, 50 in central, and 550 in south, totaling over 1,000 companies. According to the association, the record of 2011 hit the highest 172 applications which were approved for investment in Vietnam. The Japanese travelers who entered Vietnam in 2011 were 440 thousand with 23% rise from the previous year. Opening new Japanese affiliated restaurants will surely increase at an accelerated rate.

On the contrary, competition between restaurants will get harder. As a result, it will be an essential factor to shift into "Qualitative Japanese Food" from "Mere Japanese Food", and "Food Material Purchase and Procurement" will be a critical element for successful management for Vietnamese restaurant business.

Further to say, Japanese food restaurants had target of Japanese customers until several years ago, but since around 2008, they could find Vietnamese customers while the middle income group is expanding in Vietnam. This research also confirmed such is true with restaurants it surveyed.

As Japanese cuisine has high-class image, status-oriented Vietnamese for the purpose to entertain business people is also increasing. It is foreseen that number of Vietnamese customer is to increase.

On the other hand, there is also a drastic move to popular Japanese food restaurant where general Vietnamese people can enjoy, from high-class position.

In the process of this research, interviews are performed about situation of shop operation environment and the 2 systems for foodstuff procurement in current use. The specific targets are Japanese affiliated restaurants and accommodation facilities at the center of Ho Chi Minh City.

The specific interview points are: (1) outlook of store (2) foodstuff procurement environment (3) commodity distribution quality (4) equipment in the store (5) countermeasures taken against harmful insects (6) electricity situation. Summary is as follows:

(1) Outlook of store
<p>Store scale: average 70 seats (interviewed shops). Many of them had initial plan for Japanese business people representing in Vietnam and their related people as the customers. However comparative newcomers' shops are designed targeting local Vietnamese people with thoughtful menu. Considering the recent trend that competition is getting harder among increase number of new restaurants, the management featuring its own unique points can be the only survival measure according to some shop's comment with sense of crisis.</p>

(2) foodstuff procurement environment
<ul style="list-style-type: none"> * Municipal market retailers and wholesalers are at the center of foodstuff procurement sources. A part of food materials are purchased from a private shop. * Meat, fish and vegetable as major food materials are principally procured from municipal market shops. In the municipal market store, a few of refrigerators or cold storage equipment are found as in the pictures in “ (5) Competition Research b. Buyer...Figure 4.2 Pictures of Municipal Market Store & Wholesaler. * A “store specialized in chicken meat” had a refrigerator but with poor cooling performance, and ice blocks had to be kept inside. * Each restaurant is procuring food materials mixing methods of purchasing from municipal market through buyers under individual contract, and purchasing from municipal market retailers or wholesalers under individual contract. Considering current food distribution actual conditions and lack of these distributors' reliability, each restaurant needs to keep and make a lot of purchasing sources available. * Food materials are procured through “Buyers” and “Municipal market retailers and wholesalers” at the same, but more than half of restaurants use buyers. * Buyers' purchasing source is not limited. If they limit it, they are to depend on limited shops' inventory availability. By the buyers determination, they find several shops in the municipal market (300 shops in Ben Thain market) to purchase necessary food materials. * As the above reasons, market price of food material is always fluctuating. * If a restaurant cannot procure necessary food materials for those buyers or municipal market retailers or wholesalers, store staff member is asked to go to buy. * For delivery, motorbikes are used in the view of traffic regulations in Ho Chi Minh city and cold delivery. * Payment settlement of purchase account is basically Cash On Delivery. It is based on private and individual contract, there is no red invoice (*1) issued. * With municipal market retailers and wholesalers, to some extent settlement on credit basis is used, but there are cases without issuing the red invoice. Therefore both parties have troublesome accounting procedures.

(*1) Red Invoice: means official receipt issued at the time of commodity sales or supplying service. It has both roles as an invoice and receipt. When applying corporation tax in Vietnam, its submission is required by the tax office as evidence for deductible expense accounting. If no red invoice submitted or any errors found in the accounting, each expense is not regarded as deductible expense.

(3) Commodity distribution quality

- * Meet, fish, vegetable are packed in small quantity by plastic shopping bag, then delivery at normal temperature.
- * Depending on purchasing volume, a polystyrene foam box is used, but it not with attention on hygiene matter.
- * Miss-delivered or shortage problems happen often, and the private buyers are apt to make such troubles if he is entrusted by the restaurant.
- * Late delivery, miss-delivery, shortage and robbery are usually happening, so restaurant management has to watch and monitor the purchasers all the time.
- * Persons in charge of delivery are trained for food material safety and hygiene matters at all. For example, live fish (like shrimp) are packed in polyethylene tank for petroleum with sea water and air during transportation.
- * When food material shortage happens, it will affect business due to lack of particular and unique menu. And another menu preparation will cause extra labor cost. (4 stores out of 7)
- * Poor quality of commodity distribution causes complexes of troubles.

(4) Equipment in the store

- * Each store equipped a refrigerator, but in most case they are imported second-hand from other countries than Japan. Our research indicated that all of the research stores had the imported ones. Japanese made has better quality, but high initial investment.
- * As the storage period is proportional to equipment performance. At present, their storage period of food materials is limited to about 2 days (5 stores out of 7 in the research).

(5) Counter measures taken against harmful insects

- * There happen damages constantly due to harmful insects and rats in the store. In order to reduce the damage, measures for extermination and devising food management are taken.

(6) Electricity situation

- * Electricity situation in Vietnam is one of the concerns in every region. In the research two shops are found with self-generation equipment but others did not equip it due to investment cost as the most cases.

It is assessed that there is difficulty for the food material suppliers to construct their own cold chain that we propose due to time, cost and educational matters in order to improve food commodity distribution environment for the restaurants in the central area of Ho Chi Minh city. It is though that the best thing to do is planning suppliers' business expansion utilizing Tsukishima Soko in order to be compatible with changing consumer's lifestyle and consciousness of "Safe Food" linked with Vietnam economy

The restaurants that entered into the market years before are maintaining the present foot material procurement level after experiences and accumulation of trials and errors since their establishment. As the newcomers have to undergo many similar sorts of hardships, those coming restaurants and Japanese

service suppliers are potential customers (comment from a store management -A).

This research revealed that there are complexes of problems and challenges to do not found in Japan due to weakness in the present commodity distribution environment.

Here are some other comments by interviewees. “Labor cost is affected by the staff’s extra work for additional purchase of materials like as in the case that some portion of purchased fresh fish is damaged” (a store management -E) “I have a particular care with pride to the food material to present, but its purchase is not stable.” (a store management -B) “Market price of necessary and certain food materials are changing every day.” (a store management -F)

An earnest desire for secured, safe and stable foodstuff procurement by commodity distribution equivalent to Japanese level became apparent.

Chart 4.7 Challenge and complaint on restaurant distribution and management

	Store	Situation
Stable Supply (shortage)	B	Shortage (frequency, response) complain
	B	One-day extra purchase of vegetable etc. to cover delivery risk
	E	Difficulties to secure food material for regular menu
	E	Sudden shortage takes extra time for extra purchase = cost up
	G	Shortage (frequency, response) complain
Commodity Distribution Quality	B	One-day extra purchase of vegetable etc. to cover delivery risk
	B	Delivery is not in time. Difficult to calculate preparation time
	E	A part of tuna can be used for sashimi when delivered
	F	Need to watch if ice included or not when delivery
	F	Late or miss-delivery. Concern about hygiene
Harmful Insects	D	Once a month spray raticide for rats. Ants found in store
	A	Rat damage decreased. Thoroughly avoid food in late night kitchen
	E	Once a month spray raticide for rats. Ants found in store
	B	Damages due to rats and ants
Electricity Situation (blackout)	D	Day time 1/month, night 1~2/week, no generator
	A	Day time 2~2/month, no generator
	B	1/day at midnight
	C	Sudden blackouts twice for ca. 30min.
	E	Day time 1/month, night 1~2/week, no generator
	F	Day time 1/month, night 1~2/week, no generator

(Adapted from: data rendered by the research group)

Chart 4.8 Store Situation List by each store

Store			A	B	C	D	E	F	G	
Store Outlook	Business	year	3	0.3	2	0.5	1	0.6	14	
	Store Category		Japanese	Japanese	Café	Japanese	Japanese	Japanese	Restaurant	
	Main customers	Japan	80%	90%	80%	80%	90%	70%	100%	
		Local	20%	10%	20%	20%	10%	30%		
Seats		60	150	50	60	60	50	50		
Foodstuff Procurement	Material Procurement Source	Raw Meats	Buyer		○		○	○		
			Retl / WS	○	△	○			○	
			Super							
		Fresh Fish	Buyer		○		○		○	
			Retl / WS	○	△	○		○		○
			Super					○		
		Vegetable	Buyer				○	○	○	
			Retl / WS	○	△	○				○
			Super		○					
		Seasoning	Buyer				○		○	
			Retl / WS	○	○			○		
			Super	△	△	○				○
	Alcohol	Buyer				○				
		Retl / WS	○	○			○	○	○	
		Super	△	△	○		○	○		
	Place of Procurement	Raw Meats		Ben Thanh	GoodFood	Ben Thanh	Danh Dinh	Ben Thanh	Ben Thanh	Ben Thanh
		Fresh Fish		Ben Thanh	Binh Duong	Ben Thanh	Danh Dinh	Ben Thanh	Ben Thanh	Ben Thanh
		Vegetable		Private shop	Metro	Ben Thanh	Danh Dinh	Metro/Others	Ben Thanh	Private shop
		Others		Wholesale	Supermarket	Staff	Supermarket	Staff	Staff	Supermarket
	Delivery by	Motorbike		○	○	○	○	○	○	○
Truck										
Payment Settlement	Cash			○	○	○	○	○		
	Invoice on credit		○			△	△		○	
Commodity Distribution Quality	Quality	Late Delivery		○			○	○	○	
		Miss-Delivery			○			○	○	
		Shortage		△	○		○	○	○	△
		Robbery								
	Distribution Temperature	Normal Tmp. Div.		○	○	○	○	○	○	○
		Refrigerated Delivery								
Delivery Package	Polystyrene-box(ice)		○	○			○		○	
	Poly. Bag(no ice)		○	○	○	○	○	○	○	
Store Facilities	Store Equipment (Refrigeration)	units	6	14	2	5	3	2	4	
	Refrigerator Maker	Chinese					○	○		
		Taiwanese		○				○		○
		Korean		○						○
		Malaysian		○	○					
		Others				○				
Storage Period	Days	2	3	2	2	2	2	3		
Insect damage	Damage from Insect/Rat		○	○	○	○	○	○	△	
Electricity Situation	Electricity Blackout Trouble	Blackout	○	○	○	○	○	○	—	
		Times/week	1	6	2	3	3	4	—	

(Adapted from: data rendered by the research group)

(7) Counterpart Research

The following local commodity distribution enterprise is selected, and together, a joint venture company will be established as the reliable local counterpart is very essential according to the related regulations for the project development in Vietnam.

Local Counterpart

Company	Tracimexco - Supply Chains and Agency Services J.S Company (TRA-SAS)
Address	34 Nguyen Thi Nghia street, Ben Thanh Ward, 1 District, Tp. HCM
Outline	Established in Jan.1996, having head quarter in Ho Chi Minh, and offices in 4 other cities in Vietnam; (HA NOI OFFICE、 HAI PHONG OFFICE、 Tan Son Nhat airport center、 Binh Duong DC and logistics hub) with own warehouses, and offering services in warehouse, storage and management, delivery covering Vietnam territory. A part of capital is acquired by the Vietnamese government.
Customers	(1) British American Tobacco: Cigarette (UK) (2) Beiersdorf Vietnam : Cosmetics (DEU) (3) Coca-Cola Vietnam : Drinks (USA) (4) Heinz Vietnam : Food Manufacturers (USA) (5) Fronterra Brands : Milk related Makers (NZL) (6) Intel Vietnam : IT (USA) (7) URC Vietnam : Food products (PHL) (8) Siemens Vietnam : (DEU) (9) Baker Hughes Oil Well : (USA) (10) Schlumberger Oil well : (USA)

5. Project Strategy

(1) Project Outline

a. Targeted markets

Chart 5.1 Target List

	Initial 3 years	4 th year and onwards
Customers	Japanese affiliated restaurants and other eating and drinking establishments at the city center of Ho Chi Minh	Local / Foreign restaurants, local retainers, super markets, local food processing companies

(Data rendered by the research group)

We determined the targeted markets for the first three years: Central city area of Ho Chi Minh, especially Japanese affiliated restaurant and Japanese affiliated eating and drinking establishment complexes on Le Thanh Ton Street, Dong Khoi in the 1st district.

Japanese affiliated commodity distribution companies have not yet entered into the field of refrigerated consolidation commodity and small-lot cargo related to food materials for restaurant and other eating and drinking stores, and these potential customers are depending on the conventional low quality commodity distribution. Therefore, these markets are suitable to the cold chain that we aim to construct and that can not be achieved by buyers, wholesalers and municipal markets.

Although we start sales with the target of the restaurants for the initial three years, in parallel we will research present situation and marketing for the next target of various business markets (local food processors, local food material importers etc.) as the preparation for the 4th year and onwards.

Chart 5.2 Example of Targeted Local Food Process Industry

Company Name		RED DRAGON CO. LTD	
Category		Food processing (fruit)	
Equipment	Processing	Capacity: 20 ~ 40 tons/day	
	Warehouse	Refrigerated Storage (in house), other rented refrigerated Warehouses at 3 locations (under use)	
Customers	Domestic	Sales agent, Wholesaler, Food Maker, Domestic Super Market	Big C, Metro, Coop, Miximark
	Overseas (Export)	USA, Canada, Netherlands, Germany, France, UK, Spain, Middle East Countries, Thailand, Malaysia	Citimart, Selectmart
Example of Items handled			
Comment	This company has established not many years before, however they have high level of products needs, and now have plan to invest process plant extension and a new refrigeration facility, and develop domestic market expecting good demand. At the time they also expect high quality commodity distribution technology from Japan.		

(Data rendered by the research group)

b. Details and features of goods and service

In order to solve the challenges on the commodity distribution around the initial target markets which appeared in the research, we will construct the refrigeration facility for this project and develop and set up the delivery system within counterpart lot of their own.

We will offer the “Cold Chain” which does not exist new in Vietnam through education of local human resources, preparing manuals for storage, management and delivery, and utilizing OJT by personnel supported by Tsukishima Soko.

* Construction of Refrigerated Warehouse (equipment specification)

Refrigerated Warehouse Specification List

	Major Equipment	Made in	Specification
1	Refrigerator	Turkey	12m (L) x 10m(W) x 4m (H)
2	Cooling component	Germany	9.9m (L) x 8m (W) x 4m (H)
3	Generator (*1)	Italy	50 kVA

(*1) As a counter measure of power suspension (Data rendered by the research group)

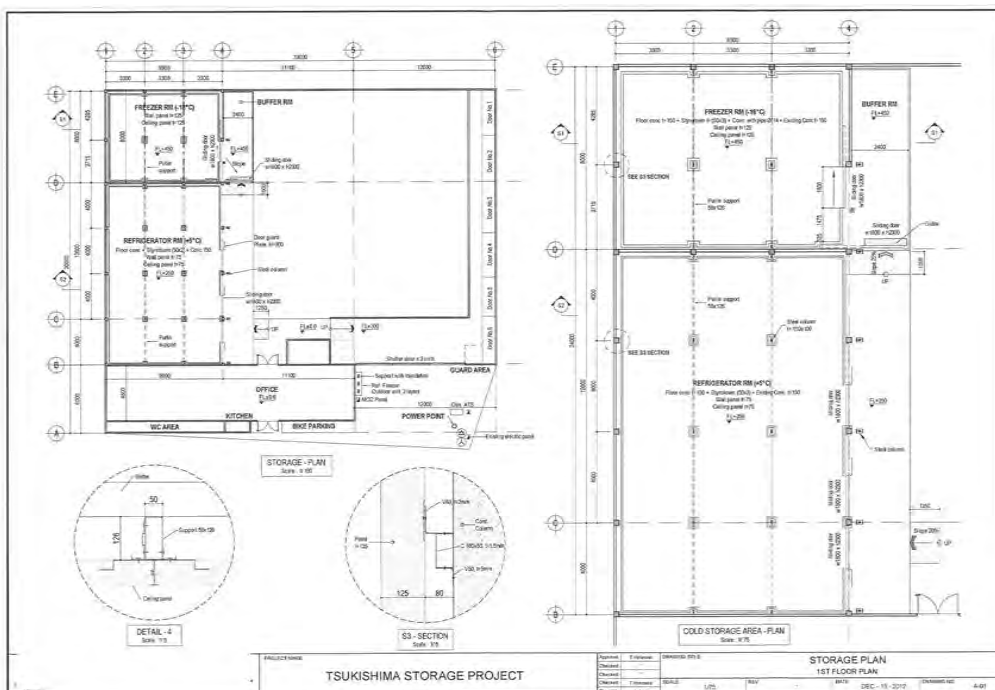


Figure 5.1 Refrigerated Warehouse Drawing

c. Human resource education

This project can not be achieved only by physical improvement and equipment. It is essential to train local human resources involved in the project continuously starting from commodity distribution concept that we aim and up till the necessary commodity distribution technology to maintain the commodity distribution quality.

For this purpose, each manual will be created for training and guidance covering experience, business record, knowledge, commodity distribution technology, and reaching storage, management and delivery which Tsukishima Soko have built up in Japan.

In parallel, Tsukishima Soko will dispatch an engineer and/or management personnel for local human resource education repeating OJT activities.

The human resources of the project will be assigned according to their work details. The joint venture company staff will be allocated for storage and management, and for delivery TRA-SAS members are to be utilized.

The reason of allotment by the human resource is not only for the consideration on commodity distribution foreign investment restriction, but also for the purpose to develop the project aiming the existing customers of the counterpart, TRA-SAS through TRA-SAS staff members through the manpower training. It is believed at this plan will make a favorable effect to the project in 4th year and onwards since the plan will result enlightenment and identification of the Japanese originated high quality commodity distribution.

d. Development of tools for delivery and equipment

Delivery means are to be motorbikes under consideration of Ho Chi Minh City traffic restriction and also local Vietnamese practices.

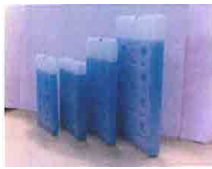
Currently main tools for delivery are motorbikes; however these deliveries are at the normal temperature basically. As a result nothing for quality keeping function is regarded. In the project the bike rack will be modified and Japanese made refrigerant will be used for delivery.

After the consult with TRA-SAS, delivery bike asset and bike rack are to be prepared and supplied by TRA-SAS.



Figure 5.2 Picture of Predicted Delivery Motorbike

Chart 5.4 Refrigerant Specification List & Freezing Rack Specification List



Type	Size (mm)	Volume (cm ³)	Makers' experiment (in Japan)
500g	230x150x22	753	After packed in a box with the refrigerant in the place of production, -3°C (fresh fish temperature) is kept for 15hrs (actual experimentation data by the makers)
1000g	290x280x28	1462	
2000g	350x230x32	2818	



Type	Size (mm)	Capacity
Freezing Rack	530x363x209	12 packs, Refrigerant

(Data rendered by the research group)

f. Project scope

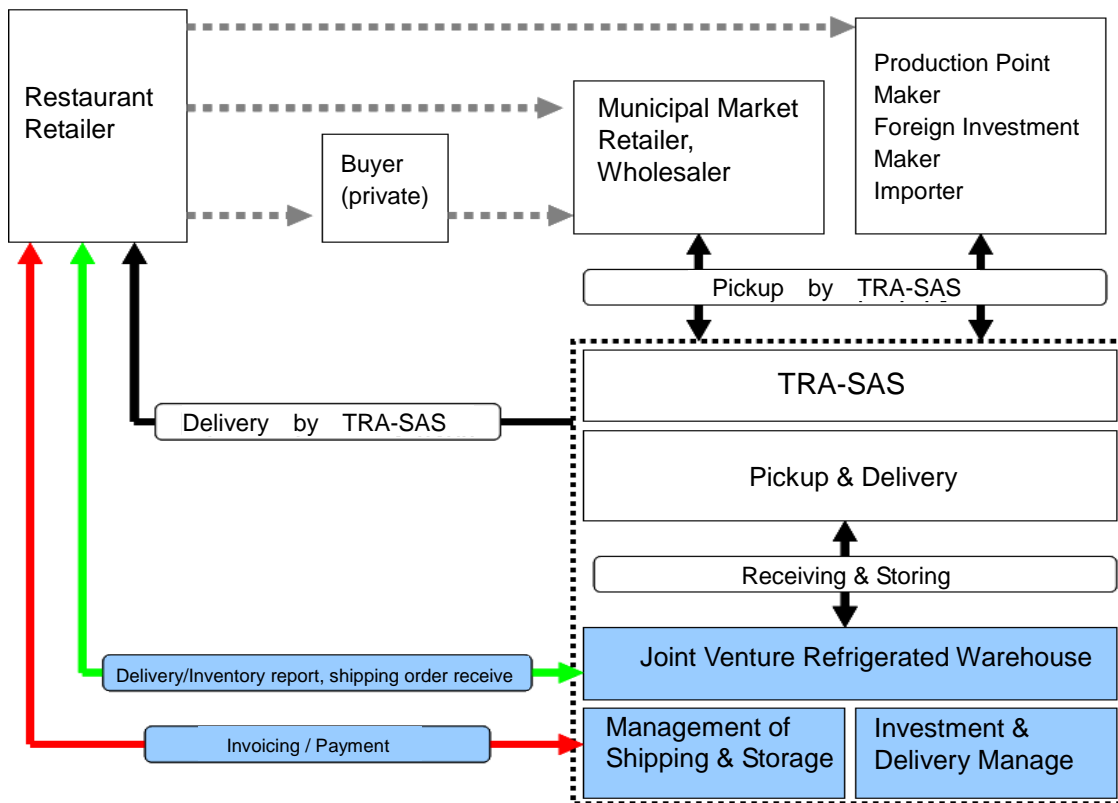


Figure 5.3 Our Business Model

The scope of the project is illustrated in “Figure 5.3 Our Business Model” painted over in blue. The area surrounded by dots shows the region related to business cooperation with TRA-SAS.

Purchase order of food materials will be made from the restaurants contracted with us through the existing channel. The ordered goods/food materials are transported by TRA-SAS to our refrigerated warehouse. The transported goods/food materials will be stored on the freezing rack after inspection, and then carry out delivering report to the contracted customer. The contracted restaurant will confirm the contents of the inventory report of necessary food materials and request us for delivery. Then TRA-SAS delivery staff will make delivery timely.

Monthly close the account for storage, management and delivery expenses to invoice it to the restaurants for bill collection.

(2) Market Environment Analysis

a. Conventional commodity distribution channel

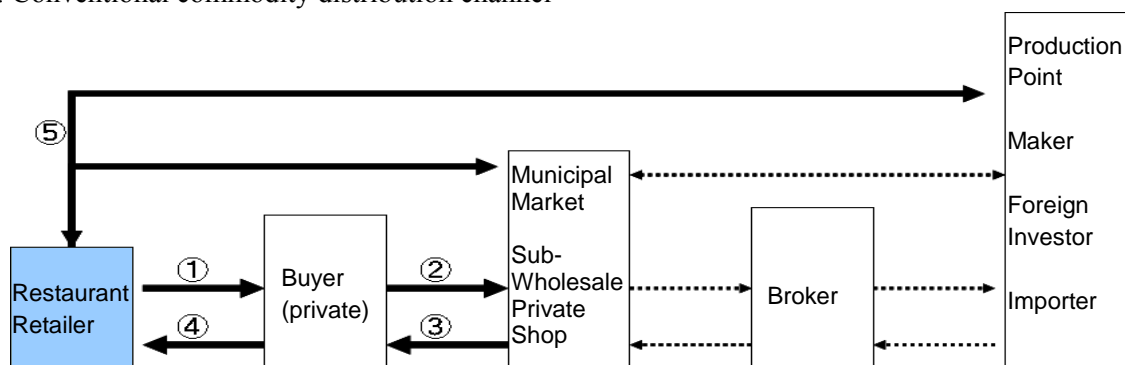


Figure 5.4 Current Vietnam Food Material Procurement

At present, restaurants mainly use two or more “Buyers (including private shop) through whom they procure necessary food materials.”(1) The buyer places order and purchases from “Retailers in municipal market, and Sub-Wholesalers.”(2)

In parallel, restaurants utilize “Retailers in municipal market and Sub-Wholesaler under individual contract to procure some kind of food materials.”(5) The undertaken buyer purchases from Retailers in municipal market and Private shops and Sub-Wholesalers under regular trade basis(3), and makes delivery to the restaurants.(4)

Payment settlement is basically Cash on Delivery, but some food materials have Invoice on Credit on the basis of week-end close, and next Monday settlement.

In current Vietnam markets, wholesale system for food material commodity distribution does not work. In general, each restaurant individually finds foodstuff procurement sources, and makes individual contract.

The same conventional distribution channel is found with in consumer related markets, which has wide difference compared with Japanese markets.

The foodstuff procurement source for municipal market retailer and sub-wholesaler in the main supply channel of for the restaurant, is point of production and food manufacturers, but there is brokers in between. The broker is one of the causes of market price fluctuation for food materials.

In this conventional distribution channel, the cold chain which we intend to introduce does not exist, and consciousness of quality in distributing goods can not be found.

c. Positive points on the general situation around the target of the project

Chart 5.5 Ho Chi Minh City Population Trend & Distribution Volume Trend

		2007	2008	2009	2010	
Population trend	Whole Vietnam	84,219	85,119	86,025	86,933	
	Ho Chi Minh City	6,725	6,946	7,196	7,378	
	Ho Chi Minh growth rate		3%	4%	3%	
Cargo Volume	Land	Whole Vietnam	399,595	447,548	492,082	561,515
		Ho Chi Minh City	30,461	34,328	35,014	41,788
		Ho Chi Minh growth		13%	2%	19%
	Sea	Whole Vietnam	29,281	34,404	37,852	39,746
		Ho Chi Minh City	7,620	8,392	9,334	9,810
		Ho Chi Minh growth		10%	11%	5%
	Air	Whole Vietnam	539,930	594,644	656,840	739,941
		Ho Chi Minh City	49,341	53,698	57,437	68,783
		Ho Chi Minh growth		9%	7%	20%

* Unit: population/1,000 Land Cargo/Thousand tons, Sea Cargo/10thousand tons, Air Cargo/Thousand tons
(Adapted from: Vietnam General Statistics Office statistic data)

The largest city in Vietnam, Ho Chi Minh City has increase by 3% every year since 2007 according to Vietnam General Statistics Office statistics of 2011, and the percentage for whole Vietnam is getting near to 10%. This area indicates the increase of cargo volume (commodity distribution amount) by about 20% proportionate to stable economic growth and population increase.

At the same time, according to Vietnam General Statistics Office, Vietnamese productive population of 15 to 64 years old occupies 69% of the total population, which is about two times of the rest of the population. This results more economic growth in high speed and activates national consumption.

Researches of Vietnam-Japan association of commerce and industry and Vietnam Ministry of Planning and Investment, Foreign Investment Agency foresees investment expansion by Japanese affiliated enterprises (manufacturers and non-manufacturers).

In the situation that more Japanese representatives stationed in Vietnam and more travelers from Japan to Vietnam, population of the people who care more about food material security also increases. The advantages and usefulness of project by Tsukishima Soko will be certainly recognized in such circumstance.

As indicated in 4. Investment Environment (4), a. Research of national disposable income trend, more local Vietnamese people will visit Japanese food restaurants and Japanese restaurants managed by Japanese affiliated company along with the spreading middle income group, and such advantage of supplying safety-guaranteed food materials will be enlarged.

c. Negative point on the general situation around the target of the project

When we start the project, price competition will occur with the conventional commodity distribution and also competition with existing parties related the trades. There may exist some restaurant management who does not require “Secured and Safe commodity distribution” that is Tsukishima Soko’s destination.

Such negative points can be dissolved in our effort of various activities like as repeated enlightenment and sales promotion to increase restaurant management people who understand the value of our service.

d. Targeted customers

During the restaurant research process at the central area of Ho Chi Minh City, majority of the restaurants reaching 60% had issues about the present commodity distribution such as “excessive time of preparation” or losing business chance due to the shortage of necessary food materials.

However if we pickup these 60% restaurants as the project target, it must be within the assumption that all of these restaurants are eager to challenge these issues all most at the same time. Therefore the target base is set as 166 stores of Japanese affiliated restaurants in the complexes on Le Thanh Ton Street, Dong Khoi Street in Ho Chi Minh City central area.

On this base, the restaurants where they offer merchandises at 3,000 Yen (700,000 Dong) and over are picked up as “Stores with particular attention to food materials” from the target base. That customer unit price has come to know in the research.

At the same, new coming restaurants will be also counted as the target since they will have similar and hard experiences that the pioneer restaurants had before in foodstuff procurement.

Priority of sales activity will be as follows;

Chart 5.6 Ho Chi Minh City Center Restaurant Number of Initially Predicted Target

Area	Restaurant number (as of Dec. 2012)
Central area of Ho Chi Minh City	166 stores

Priority order	Target property and predicted target No.
1	Unit price 180,000Dong (800Yen~)/ attention to food material: high Total Number : 120 stores Sales start: April 2014
2	Newcomer Unit price 180,000Dong / attention to food material: high Sales start: April 2014
3	Unit price 150,000Dong (600Yen ~) / attention to food material: middle Total Number : 46 stores Sales start: April 2015

(Data rendered by the research group)

(3) Feature and Strong Point of the Project

a. High value added commodity distribution offer to restaurant (initial target)

Restaurant can reduce excessive labor cost and other related extra cost caused from present low quality of commodity distribution, shortage of necessary food material and late delivery.

And also restaurant can maintain business chance under stable supply of necessary food material by ensuring commodity distribution quality in spite of owing expenses for food material storage, management and delivery.

b. Offer of added value to municipal market retailer and wholesaler

Retailer in municipal market and wholesaler can reduce purchasing unit price because purchasing sources can be secured in stable condition and continuously, and purchasing volume of purchasing from us increases by unifying the diversified foodstuff procurement sources which restaurant as food material ordering party let buyer select by his own determination.

c. Quality keeping by refrigeration and cool-delivery

Quality required by customers can be ensured as the result that the present issues related to food material commodity distribution, and of restaurant procurement in Vietnam can be dissolved by offering delivery using refrigeration facility, cool delivery tools and staff members trained by Tsukishima Soko for Japan-origin commodity distribution quality maintenance technology.

d. Keeping quality by refrigeration and cooling equipment and devices

Most of restaurants do not equip large-sized refrigerator in their store. So the storage period of food materials is as short as 2 days. Now they can utilize the function of our refrigeration facility as their own store refrigerator. (Can secure the goods which can be stored in long period)

e. Reduce inventory management cost

Effort of inventory management and bad inventory can be reduced by our inventory management. We do such management for restaurant and retailer.

(4) Project Aim

Period	Project Aim
3 years after establishment	<ul style="list-style-type: none">* Joint venture corporation registration and acquires license.* Construction of refrigerated warehouse, equipment and delivery equipment.* Employing human resources for joint venture company and construction of organization and management system.* Training human resources (produce commodity distribution technical manual, guidance)* Development of tools for marketing and sales* Implementation of marketing and sales* Achieving initial project plan
4 th year and onwards	<ul style="list-style-type: none">* 3-year medium-range management plan to set* Refrigerated warehouse, equipment expansion plan to set* New marketing and sales* New human resource employment and training

(5) Project Progress Scenario

a. A scenario for the preparation period of 2013 Fiscal Year and initial 3 years

Item	Starting	Description
Joint Venture set up	Apr. 2013	1. In 2013 establish representative office for setting up joint venture company with TRA-SAS, Study and fix joint venture contract, register company, and start procedure for commercial license and related laws.
	Apr. 2013	2. Install representative office within TRA-SAS building (rental)
	Sep. 2013	3. In parallel, preparation and full-scale construction of refrigerated warehouse, refrigerator within TRA-SAS site
	Apr. 2013	4. One year is predicted from representative office establishment up till joint venture registration application completion, and commercial license acquisition.
Secure human resource	Sep. 2013	1. In parallel to joint venture preparation, recruitment and employment of local human resources
	Sep. 2013	2. Decision of selected TRA-SAS staffs for joint venture
Human resource training	Sep. 2013	1. Production of commodity distribution technical manual for local joint venture company staff, TRA-SAS staff (refer 5. Project Strategy (1)Project outline c. human resource education)
	Sep. 2013	2. Production of education curriculum schedule based on above manual
	Apr. 2014	3. Implementation of education according to the curriculum schedule
	Apr. 2014	4. Performing OJT by Tsukishima Soko staff in the base of dispatch from Japan for 2 weeks every half year.
	Sep. 2014	5. Modification of training manual conforming local situation
Sales activity	Apr. 2013	1. Within the fiscal year of 2013, precise check of sales price & storage item list (set in the research) by local marketing
	Sep. 2013	2. Production of sales manual and promotion tools for marketing and sales technique.
	Apr. 2014	3. Starting sales based on the target list (set in the research). (*1) Preparation and marketing for pilot model
	Sep. 2013	4. Construction of connection network outside of the target within project
	Apr. 2015	5. Implementation of test marketing for customers to the 4 th year ~ (*1) Pilot model means: customer who gets special incentive for spread and expansion of the cold chain we offer, and who can make enlightenment widely
Commodity Distribution management	Sep. 2013	1. Production of warehouse operation manual
	Sep. 2013	2. Production of delivery operation manual
	Sep. 2013	3. Fixing and implementation of operation rule based on above manuals, and quality control standard
	Sep. 2013	4. Development of account settlement system with customer (*2) local factoring (*2) Factoring means: to avoid bad debts risk, prepare with local factoring company for the settlement against the service we offer.
Company rule	Sep. 2013	1. Preparation and fixing of rules for joint venture corporation

b. 4th year and onwards

Expansion of the project is to be intended by setting next middle-ranged management plan referring the project environment experienced in the previous initial tree years.

(6) System of the project

a. Merchandise development, system to offer service

* In the hope that customers can make effective use of our cold chain equipment, the role of joint venture and Tsukishima Soko is to be merchandise (function) development. The development covers “Constant Temperature, Cool Storage, Refrigerated Warehouse, Management, Delivery Function”, “Small Lot, High Frequency Ordering, Diversified Item Delivery Function” and “Consolidation Function” as major merchandise functions to suit customers’ needs.

* To construct service supplying system giving weight on sales, storage/management, and delivery for the purpose to offer the developed merchandise properly.

* The service offering is to comply with quality control standard of the joint venture made out according to the manuals for human resource education, storage and delivery.

System	Assignment and Role
Merchandise Development	Development by Joint Venture and Tsukishima Soko
Service	Joint Venture and TRA-SAS

b. Material / Raw material procurement plan

* Materials and equipment necessary for joint venture are to be prepared by local counterpart

Material	Procurement	Specification
Land	Located within TRA-SAS site	for refrigerated warehouse, office
Refrigeration Facility	Construction within TRA-SAS	Design/construction by Japanese affiliated
Delivery Equipment	Development / modification by TRA-SAS	Motorbikes, modified-rack

c. Distribution and Sales Plan

By representatives local-stationed and human resources local-employed, sales system is to be organized, and sales activities are performed. In order to accelerate the sales promotion, it has to lead the resolution of various challenging issues that the restaurants hold within foodstuff procurement and storage, and it has to be advantageous to the restaurant management. For that purpose, the advantages of our merchandise are to be actually felt by. This first hand experience in our merchandise functions, in other words commodity distribution quality improvement will be obtained in the development course of several customers introduced in “5. Project Strategy, (5) Project progress scenario,

a. Initial 3 years scenario, Sales Activity 3. Pilot model”.

Planning horizontal expansion of marketing based on the actual results from the pilot model restaurant.

* Produce and make effective use of basic sales tools for actual sales activities reflecting the result of this research.

* Targeting the new coming Japanese affiliated restaurants, carry out new customer marketing, at the same time presenting information about local foodstuff procurement situation and its structure and support them in commodity distribution related to foodstuff procurement at their early stages of local establishment and operation.

* As activities focusing within the view of the 4th year and onwards, make implementation of verification, putting hypothesis and, development of new commodity distribution merchandise for next marketing expansion while caring out test marketing to the point of production, local investment food material manufacturers and, exporters within the initial sage of 3 years.

d. Setting predicted selling price

* After the research, it revealed that staffs of cooking and other section in each restaurant took excessive hours because necessary food materials can not be delivered in time and with full quantity/item according to each order. That excessive cost is calculated by us exchanging excessive hours into labor cost since we judged that such excessive hours can be reduced by using our commodity distribution.

* In actual research, we have got information that the employment condition of these cooking staffs suffering such excessive hours is on an hourly wage payment system. So the labor cost was calculated on an hourly wage including overtime work charges.

* The interviewed restaurants work in day time, and with the business hours there happens overtime, which is confirmed about 2 hours.

* The cost calculation was based on sales volume, percentage of purchasing cost, each labor cost and overtime of 10 stores that we got in interview research.

* The result of estimate shows monthly average 49,200Yen as the extra cost.

* The sales amount during the first 3 years is set about 90% of the extra cost equivalent which is currently generated in the restaurants. In addition the sales amount is to be reviewed by year/s elapsed calculating consumer commodity price, labor cost increase and so on watching market trend in Vietnam.

* The contracted restaurant can accept our commodity distribution at about 10% less from the extra cost.

* Furthermore, the restaurant can enjoy direct and indirect added values including securing the safety of food materials which is essential, getting storage hours by a certain volume of purchase, electricity cost cut by using our refrigerated facility and, reduction of mood material management cost.

* By the sales amount set for the first 3 years is not considered to cover every item of food materials that our customers handle for restaurants under utilization of our commodity distribution system. With consultation of the human resources that received the education in refrigerated warehouse facility, cool delivery equipment and high quality commodity distribution, which are our fundamental service in sales marketing in the fiscal year of 2013, essential items are to be carefully reviewed and selected for securing and maintaining of the food materials for the restaurants.

* In the sales activities of the first 3years, the fixed setting of selling price, however we identify the difference in foodstuff procurement volume between stores. Selling price system and price setting will be adjusted or changed after grasping current market situation and, the result of marketing in the fiscal year of 2013 introduced in “8. Action Schedule for Commercialization”.

Predicted Selling Price	45,000Yen/Month/Store Including storage, management and delivery charges
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Chart 5.7 Local Restaurant Excess Cost Estimate List

Store	A	B	C	D	E	F	G	H	I	J
Years in business	3	0.3	2	0.5	1	0.6	14	-	-	-
Category	Japanese	Japanese	Café	Japanese	Japanese	Japanese	Restaurant	Japanese	Japanese	Japanese
Predicted extra pre-cook (h)	2	2	2	2	2	2	2	2	2	2
Number of cooking staff	2	2	2	2	2	2	2	2	2	2
Hourly wage (Yen)	500	500	500	500	450	450	500	500	450	400
Cooking staff working days	24	24	24	24	24	24	24	24	24	24
Extra labor cost estimate (Yen)	48,000	48,000	48,000	48,000	43,200	43,200	48,000	48,000	43,200	38,400
Staff extra H estimate (go/back)	1	1	1	1	1	1	1	1	1	1
Number of staff	1	1	1	1	1	1	1	1	1	1
Wage per hour (Yen)	150	150	150	150	150	150	150	150	150	150
Working days of staff	24	24	24	24	24	24	24	24	24	24
Extra staff cost estimate (Yen)	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600
Total extra labor cost (yen)	51,600	51,600	51,600	51,600	46,800	46,800	51,600	51,600	46,800	42,000
Average extra cost estimate	49,200 Yen									

(Estimation based on the research data)

6. Project Plan

(1) Project Implementation Structure

a. In-house structure

Chart 6.1 In-house structure and Details List

Company	Details	Structure (number of person)			
Joint Venture	* Construct sales organization * Construct warehouse management organization	Representatives & local employed staffs			
		<u>Fiscal Year</u>	<u>Representative</u>	<u>Local Staff</u>	<u>Total</u>
		2013	1	0	1
		2014	1	2	3
		2015	1	3	4
2016	1	3	4		
Tsukishima Soko	* Construct overseas project support team	In-house, establish overseas business department			
TRA-SAS	* Construct delivery organization exclusive for the project	Delivery staff (*) to be placed depending on order volume			

(Data rendered by the research group)

b. Corporation establishment forming

* Establish a joint venture between Tsukishima Soko and TRA-SAS.

* Tsukishima Soko will prepare their own investment fund for 10 million Yen as the reserve asset (at the present time).

c. Securing human resources, placement and education plan

- * A representative will be placed and dispatched from Tsukishima Soko starting April 2013.
- * In the first year, local employment will be recruited aiming employment start in April 2014
- * Recruit/employment of management and general staff will be separately done for local employment of the joint venture company.
- * Delivery staffs will be assigned by TRA-SAS from their human resources.
- * Human resource education will be carried out for each role as following schedule.

Chart 6.2 Human Resource Securing, Placement & Education Schedule List

Item	Company	Assignment	Position	2013 fiscal year		2014		2015	
				1st half	2nd half	1st half	2nd half	1st half	2nd half
Securing Human Resource	Joint Venture	Administrator	Representative	1	1	1	1	1	1
		Management practice	Manager		recruit	employ			
		Management practice	General staff		recruit	employ	recruit	employ	
	TRA-SAS	Delivery	Delivery staff		assign		assign		
Item	Company	Assignment	Position	2013 fiscal year		2014		2015	
				1st half	2nd half	1st half	2nd half	1st half	2nd half
Assignment	Joint Venture	Management practice	Manager			1		0	
		Management practice	General staff			1		1	
		Total persons (accumulated)				2		3	
	TRA-SAS	Delivery	General staff			2	4		
		Total persons (accumulated)				2	6		
Training Period	Joint Venture	Management practice	Manager						
		Management practice	General staff						
	TRA-SAS	Delivery	General staff						

(2) Investment Plan / Financial Plan

- * Total Investment: 10 Million Yen (Joint Venture Capital: 20 Million Yen)
- * Investment ratio is agreed by both companies as 51% Tsukishima Soko and, 49% TRA-SAS.
- * As for the land for refrigerated warehouse and office, TRA-SAS owned land is to be utilized and it is to be leased.
- * The refrigeration equipment will be prepared by TRA-SAS, and it will be rented to the joint venture company.
- * Delivery equipment will be prepared by TRA-SAS and the joint venture company will apply cost of goods sold (cost for delivery charge).
- * On the portion that TRA-SAS invests for the investment plan, TRA-SAS has agreed, and in this condition the investment plan is arranged.
- * Breakdown of the operation fund is personnel expenses and other sales administrative expenses.
- * About the equipment fund procurement related to the refrigerated warehouse which has an expansion plan for 2016 fiscal year, the joint venture company, Tsukishima Soko and TRA-SAS will have discussion depending on the project progress.

(3) Numerical Plan

Numerical plan is reviewed in three patterns of high-case, middle-case and low-case. The middle-case is applied to the following “Estimated Profit and Loss Statement”, “Estimated Balance Sheet” and, “Estimated Cash Flow”. Chart 6.3 Project Plan

Chart 6.3 Project Plan (estimated profit and loss statement Unit: Thousand Yen)

Fiscal Year		2013	2014	2015	2016	
Sales	Contracts per ann.	0	19	16	3	
	Contracts per ann (total)	0	19	35	38	
Turn over	Storage fee	0	1,450	9,495	9,954	
	Work charge	0	580	1,266	1,327	
	Transportation fee	0	4,350	9,495	9,954	
	Total Turn Over	0	6,380	20,256	21,235	
Cost and Expense	Warehouse (rental)	0	1,360	2,880	2,880	
	Office (rental)	1,080	1,080	1,080	1,080	
	Total	4,800	5,657	5,779	5,828	
	Personnel Expenses	JAPAN persons	12	12	12	12
		VietM persons	0	12	12	12
		VietW persons	0	18	24	24
	Transportation fee paid		3,915	8,542	8,870	
	Others fixed		1,200	1,200	1,200	
	Others variable total	0	719	703	710	
	Other variable expenses ①		600	600	600	
Other variable Taxes ②		119	103	110		
Total cost and expense	5,880	13,931	20,184	20,568		
Sales Profit		-5,880	-7,551	72	667	
Non-operating income Interest income			595	514	550	
Ordinary Profit		-5,880	-6,956	586	1,217	

* Number of contract in the project was calculated on the basis of the values from Tsukishima Soko’s experience and sales records for warehouse business in Japan.

* Warehouse fee, personnel expense, and transportation fee paid for the turn over account of the project are computed from the amount agreed with TRA-SAS.

* As for the personnel expense of local human resources is quoted from the result of interviews with TRA-SAS after referring local labor charge increase rate and consumer commodity price index.

* Warehouse operation rate is assumed to be fluctuated depending on seasonal factors, customers’ convenience and so on. So, we referred and reflected the working ratio used in Tsukishima Soko’s warehouse business in Japan.

* As for non-operating profit of interest received, which is deposit interest, we applied 4% of interest revenue in Japanese Yen under consideration of the average floating rate of 8% calculated from deposit interest rate in Vietnam and recent 5 years exchange market rate.

* Cost for the pilot model customer is limited within the estimated expenses.

b. Estimated balance sheet

Chart 6.4 Estimated Balance Sheet

2014 fiscal year

Assets	Current assets	13,044,467	Liability	Liquid liability	0
	Fixed assets	0		Fixed liability	0
			Capital	Capital	20,000,000
		Retained earnings		Δ6,955,533	
Total assets		13,044,467	Total liabilities		13,044,467

2015 fiscal year

Assets	Current assets	13,630,747	Liability	Liquid liability	0
	Fixed assets	0		Fixed liability	0
			Capital	Capital	20,000,000
		Retained earnings		Δ6,955,533	
Total assets		13,630,747	Total liabilities		13,630,747

2016 fiscal year

Assets	Current assets	14,848,491	Liability	Liquid liability	0
	Fixed assets	0		Fixed liability	0
			Capital	Capital	20,000,000
		Retained earnings		Δ5,151,509	
Total assets		14,848,491	Total liabilities		14,848,491

* On 20 million Yen Capital, the joint venture company is to be established.

* Account receivable is less in importance in the view of its value; it is treated as cash sales.

* In case that sales and accumulated contract number per ann. exceeds the capacity of the refrigerated warehouse which is installed in 2014 fiscal year, facility expansion plan will be fixed at the end of 2015 fiscal year and at that time study the equipment investment.

c. Estimated cash flow account sheet

Chart 6.5 Estimated Cash Flow (in Yen)

	2014	2015	2016
Cash flow after sales	Δ 6,995,533	586,280	1,217,744
Cash flow after investment	0	0	0
Cash flow after finance	20,000,000	0	0
Cash deposit change	13,004,467	586,280	1,217,744
Current deposit ending balance	13,044,467	13,630,747	14,848,491

7. Risk Analysis

(1) Strategic Risk Counterpart Relation

In the project implementation, the role of TRA-SAS as the counterpart is important.

The principal part of the project i.e. refrigerated warehouse facility, delivery vehicle and delivery human resource is undertaken by TRA-SAS. Therefore the permanent cooperation relation with the counterpart is critical element to the successful project. In order to keep good relationship, an action plan is made out and MOU (Memorandum of Undertaking) in which its plan is incorporated will be concluded.

(2) Strategic Risk Local Labor Cost Increase

Business of the company is based on the project plan that effectively utilizes the assets of Tsukishima Soko, the parent company and its counterpart, TRA-SAS, and controls the initial equipment investment as low as possible without holding fixed assets. The effect to the balance of profit and loss is local labor cost increase.

We believe that we should not increase our selling price easily in parallel with local labor cost increase, but have to seek storage cost reduction in initial 3 years by efficiently improving the basic issue of the commodity distribution, that is, the area of storage space by means of reinforcement of local human resource education in order to secure profit not by increasing selling unit price.

Moreover, we are well aware that there is a limit of the estimated maximum number of customers occupying the space of refrigerated warehouse which will be built in 2014. As the counter measure, we are planning to construct the expansion of the refrigerated warehouse floor earlier than the original plan of 2016.

(3) Strategic Risk Unexpected Change of Market Trends

Vietnam made a public commitment for opening the door to service business step by step after joining WTO, so the restriction and the standard is expected to have gradual remedy, for example restriction to the foreign investment companies who expect Vietnamese market expansion in the distribution (wholesale and retail) by Economic Needs Test that is executed by Vietnam Ministry of Commerce. However, it is not clear how the Vietnamese government deals with those regulations against Japanese restaurants and other foreign restaurants. So, there is a risk that the assumed market activation speed may be reduced. To this risk, we will make development of our merchandise and construct service system corresponding to the market situation and local environment.

(4) Financial Risk Capital Construction

We are highly requested to pay enough attention to the provisions in the contract with our counterpart since the present Vietnam investment related law restricts 100% foreign capital investment. In consequence, we will obtain majority of investment ratio and also set the conditions like as right to refuse important matters and right to elect a managing director in the process of joint venture contract.

(5) Financial Risk Bad-Debt Risk

One of the fundamental factors in the project is the development in the filed near to the final consumers. For this reason and that our customers are small or medium sized companies regardless they are Japanese or local and that the consignee is the local wholesaler, there is a risk of bad debt.

To avoid the case of bad debt, we will make enough credibility investigation before starting trade and fix rules for the trade and also review factoring system.

Although we will apply the sales on credit basis, we regard it as equivalent to cash sales in terms of the project.

8. Action Schedule for Commercialization

Chart 8.1 Project Action Schedule

Project Schedule (as of today)		2013年												2014年												2015年												2016年																			
		4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3								
1	Joint Venture Co. preparation	Representative office	Green	Green	Green	Green	Green																																																		
		J.V. co. setup preparation	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green																																													
		J.V. co. establishment												Green																																											
		Manpower training preparation					Green	Green	Green	Green	Green	Green	Green																																												
		Manpower training action														Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green					
2	Warehouse preparation	Land to prepare and secure					Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue																																											
		Warehouse facility design					Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue																																											
		Warehouse construction																																																							
		Delivery equipment develop																																																							
3	Marketing	Pilot customer develop					Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue			
4	Project start	Initial marketing																																																							
		Marketing 4th year~																																																							
5	Investment	Investment procurement																																																							

(*) Shade applied columns represent preparation period.

(*) Preparation period of representative office is set as April 2013~September.

(*) Preparation period of Joint Venture Corporation is set as April 2013~March (fiscal year).

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