

BLUE, INC. (BLUE)
ROUND B PRELIMINARY MEMORANDUM

FOR NEGOTIATIONS

BETWEEN	BLUE, INC. (BLUE)
AND	RED, CO. (RED)

Counsel for Blue:

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ISSUE ONE
INCREASING PRICE OF CORN

ISSUE TWO
QUALITY ASSURANCE OF YELLOW, CO. PRODUCTS

ISSUE THREE
WATER TREATMENT FACILITY

ISSUE FOUR
POTENTIAL PLATINUM CONTRACT

Blue enters this negotiation with the intention to preserve its harmonious relationship with Red.

Our objective is to achieve a win-win situation overall for both Blue and Red. As such, we will accept any solution which best meets the needs and wants of both companies.

We believe that the four issues to be addressed are:

1. The increasing price of corn
2. The lack of management controls in Yellow
3. The sale of the water treatment facility
4. The negotiation of a potential platinum contract.

ISSUE 1: INCREASING PRICE OF CORN

Since the execution of the corn trading contract between Red and Blue, the price of corn has significantly increased.

We wish to ascertain the reasons for Red's sudden request to amend or terminate the existing contract. Should the reason be solely based on financial grounds, we have been given the authority to increase the contract price to 270 cents per bushel. It is our intention that the overall contract price be aligned with the other contracts held with Pine, Co. and Melon, Co.; thus, we believe that overall price should be increased to 240 cents per bushel.

Moreover, it is our opinion that there is no hardship as the price of corn has experienced dramatic fluctuations in the past, so it can be reasonably taken into account that this trend would continue in the future.¹ In addition, the fact that Red agreed to enter such a long term agreement implies they have assumed all such risks.² Further, it is important to note that the contract price of 200 cents per bushel was above the market price of 191 cents per bushel at the time.

ISSUE 2: QUALITY ASSURANCE OF YELLOW, CO. PRODUCTS

The cooperation of Red and Blue has resulted in ventures of value to both companies and it would be ideal to maintain this relationship. We believe the key to resolving this issue lies in ensuring that both Red and Blue are in agreement regarding the importance of quality.

We understand that the cultures of Red and Blue are based on different values – 'just challenge yourself...do not stick to manuals or fixed ideas' and

¹ UNIDROIT Art. 6.2.2.(b).

² UNIDROIT Art. 6.2.2.(d).

'quality first' respectively – and as such, we are reluctant to impose specific methods on Yellow with which to achieve the standard of quality we require. However, it is not acceptable to us for Yellow to continue with its current lax risk management practices and lack of management accountability. It is therefore our intention to reach an agreement with Red regarding a set of quantifiable goals based on external standards. While we are happy to assist wherever required, we would like to have Red suggest the most appropriate methods to achieve these goals. In such a way, we hope to strike a balance between the cultures of Red and Blue and set procedures in place to guarantee the quality that we require without unduly interfering with the innovative freedom inherent in Red.

ISSUE 3: WATER TREATMENT FACILITY

Blue is seeking to sell its water treatment facility to Red, with primary focus on market expansion. The actual price is of secondary concern as we are willing to accept a base price of USD650,000 in cash and any additional value in non-cash assets.

In negotiating the price, the basis of Red's need for the treatment of their water needs to firstly be discerned, as does the reason for Red valuing this need at USD500,000. If Red discloses no specific urgency for the need of this facility, we will outline the reasons as to why this facility will add value to their company.

As our main focus is on market expansion, we will be willing to offer a discount of up to 10% on the price of the water treatment facility. Depending on Red's willingness to offer us a referral service, this discount may be increased to a maximum of 35%. However, in the case that the discount exceeds 10%, Red must agree to a confidentiality agreement ensuring that this discount rate is not to be publicly disclosed as the conventional discount offered in the western market is 10%.

ISSUE 4: POTENTIAL PLATINUM CONTRACT

We must verify the rumor regarding the existence of platinum in Negoland before committing further.

If the rumor is true, we will need to investigate whether the source of platinum is of a sufficient amount for investment.

Furthermore, we wish to enter into a long-term purchase agreement of platinum with Red Mining. It is our intention to contract with Red Mining through our connection with Red. However, the contract duration must be at least three years. We also wish to contract at a reasonable price in the appropriate circumstances.