

RE: FIST - GO/NO GO DECISION

You have been provided with an Enigma pragmatic ramp-up plan, which minimises cash outgoings and uses available capacity around the group.

You have also been provided with a comparison of FIST v's DSI costs and capex requirements at different yield sensitivities. To summarise the position:

1. The increased outgoings (capex) for FIST compared to DSI depend on the demand and the yields achieved. The return on the additional investment will lie between 0.8 and 3.5 years payback, depending on the yields achieved.

	D.S.I.		FIST	
	Worst Case	Best Case	Worst Case	Best Case
Capex	6,860K	5,750K	8,430K	-
Cost/Pair	13.05	9.20	8.00	7.10
Payback	A) Worst Case = $8,430K - 6,860K = 1,570K = \underline{0.87 \text{ years}}$ DSI & FIST Yields $5.05 \times 360K$ (ie - Scenarios 1 & 5 – see Richard Stone note 3 July 01)			
	B) Best Case = $8,430K - 5,750K = 2,680K = \underline{3.54 \text{ years}}$ DSI & FIST Yields $2.10 \times 360K$ (ie - Scenarios 3 & 7 – see Richard Stone note 3 July 01)			

The conclusions are:

- A) The benefit in cost/pair at worst case yields justifies the investment in FIST, assuming demand is real.
- B) If demand isn't there – don't invest in FIST.
- C) If cash in Q1 '02/'03 is an issue – don't invest in FIST.
- D) If the ramp-up plan recommended is followed, i.e.

Stage 1. 80K/prs. - Current installation.
Stage 2. 100K/prs. - Process optimization.
Stage 3. 250K/prs - Satis & Balzers + space + moulds.
Stage 4. 675K/prs. - DSI.
Stage 5. >675K/prs. - FIST.

FIST is not required until demand exceeds 675K/prs., which is not short-term.

In summary, if cash is an issue in Q1, then do not proceed with FIST. If not and the demand can be realized, then strategically FIST **may well** provide a major cost-down opportunity.

Jon & Tony
3rd July '01