

KONIX PRODUCTS LIMITED

BUSINESS PLAN

16TH AUGUST, 1989

KONIX PRODUCTS LIMITED

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KONIX PRODUCTS LIMITED  
("Konix" or "The Company")

Business Plan Dated 16th August, 1989

1. INTRODUCTION

The Konix Multi-System is the revolution in the games market that only seldom occurs and has captured the imagination and interest of literally everyone who has been involved in its conception and development or who have 'tasted' its full potential as the ultimate games machine. Following the Multi-System, computer games will never quite be the same, it is as close to the real thing that is possible to achieve with today's technology and allows all budding computernauts to - "EXPERIENCE THE REALITY".

For the investor it offers the opportunity of participating in a 'start-up' after £750,000 has already been spent, when there is already a proven product and when the market place is quite literally crying out for that product. In effect the project is already a reality.

2. DESCRIPTION OF THE KONIX MULTI-SYSTEM

The Konix Multi-System (KMS) is an advanced computer games console with highly sophisticated features normally found only on arcade machines. Its innovative mechanical design allows full user control. Its advanced electronic circuitry gives performance to match both in its speed and the quality of its graphic display and sound output.

The KMS unit comprises a horseshoe shaped base. Mounted inside this base is the electronic circuitry and the disc drive used for program loading. Pivoted to this base is a column. Pivoted near the top of this column is a W shaped control yoke, the handlegrips of this yoke can be rotated 180 deg. to form a pair of handlebars. In the yoke position a detachable rim may be fixed over it to form a steering wheel. The handlegrips vibrate under control of a solenoid and spring to enable realistic feedback. The column may be pivoted from horizontal (0 deg.) to vertical (100 deg.). The control yoke may be pivoted +/- 65 deg. from a horizontal position. Mounted on the right hand base pedestal is a control lever (throttle/gear shift) which may be pivoted +/- 45 deg. from vertical.

Mounted next to the left hand column pivot is a lever which is used to lock the column or allow free movement. The column may be locked at:-

0 deg.	Transport or helicopter mode
20 deg.	Motorcycle mode
60 deg.	Driver mode
Free to move 0 - 100 deg.	Flight mode

In flight mode friction damping is provided on the column pivots to give a realistic feel and to prevent a sudden collapse if the column is let go. A detachable foot pedal is mounted between the base pedestals. This is fitted with independent left and right pedals which can be moved up and down from a rest position.

A full technical specification is attached as Appendix A. It is planned that the system will also be linked to a number of peripheral items. They are:-

1. Power chair.
2. Helicopter joystick.
3. Light gun.

The Power Chair is designed so the KMS unit is fixed to a 'Shelf' at the front of the chair with a monitor mounted just above the unit. The whole package works as an 'Arcade' games system, rolling, pitching and yawing following the game pattern in every detail and giving a truly invigorating experience.

This complete combination was unveiled at the 'Toy and Hobby Fair', Earls Court in London, January '89. Since that date the Company's teledesk has been inundated with potential customers.

The Helicopter Joystick and Light Gun are also much sought after accessories along with the following items not incorporated in the pamphlet:-

1. 12 Button Keypad.
2. Stereo Speakers (Chair).
3. Helmet with 'Head up Display' (Chair).

It is envisaged that only one peripheral item will be manufactured and introduced at any one time, at approximately 6 monthly intervals. This will maximise the interest for the products and optimise the manufacturing and introductory cost.

Coincidental with the launch of the KMS unit is the software to complement the system. It is envisaged that at launch there will be at least three games available. By January 1990 there will be approximately twelve games available and through 1990 1 game per month will be introduced.

Almost 20 software houses have been commissioned to write for Konix and a steady stream of good quality product will be available.

### 3. COMPARISON WITH COMPETITION

To the extent that the KMS is an entirely new concept in the home games market there is no effective competition. Its closest rival will be the:-

Sega - Megadrive  
N.E.C. - P. C. Engine

The existing systems are no more than joysticks attached to plain square boxes and provide very limited and slow functions. A full technical comparison is set out at Appendix B. It will be apparent from a perusal of Appendix B that the KMS completely outclasses present systems in at least the following areas:-

- (i) Speed and resolution of graphics (including 3D).
- (ii) Quality of sound (stereo versus mono).
- (iii) Availability of headphones.
- (iv) 3.5" disc drive providing longer and more challenging games.
- (v) Ability to retro-fit peripherals which not only adds to appeal at the outset but ensures a longer life for the basic product.

Market surveys commissioned by Konix have drawn strong attention to the rising consumer demands for all the above factors to the point where the average 'twelve year old' will soon require them as standard rather than expensive optional extras.

### 4. ANALYSIS OF MARKET

Konix specifically commissioned two market surveys:-

McCann Erickson Wales  
Soluction Public Relations

In addition there has been widespread press comment and Konix's business contacts with existing and potential distributors has elicited further demonstrations of the size of the market, in sum it is immense as the following extracts indicate.

Commentators	Comment	Source
Modern Merchandise	Est. Market 1990	Letter
U.K. Distributor	Dixons - 30K Comet - 15K GUSCO - 10K Argos - 10K	

" I have actually had to reduce these slightly, purely because when one adds in retailers such as Boots, Tesco, Zodiac, Tandy, Woolworth, Toys 'R' Us etc the figures would be almost beyond comprehension. I would envisage these retailers would double the figures above!!"

Commentators	Comment	Source
Rushware Germany Distributor	To end 1989 "Confident that 100K units for German Market is attainable"	Facsimile Correspondence
C.T.S. France Distributor	"for 1990 200K Units or more"	Facsimile Correspondence
Imagineering Australia (Distributor)	"40K to 60K units in the first year"	Facsimile Correspondence
H. K. Electronics Sweden Distributor	"For Aug. - Dec. 89 at least 20K units plus related software"	Facsimile Correspondence
Ciito - Japan	Estimated Japanese Market 10 Million units over 3 years	Discussion with W. Holloway
Marubeni - Japan	Estimated Japanese Market 7.5 Million units over 3 years	Discussion with W. Holloway

It follows that, at least within the parameters of this Business Plan, Konix will be making no more than a pin-prick in the potential market place. It is a strength of this Business Plan that the Company does not need to take large percentages of market share in order to be successful. At the same time the scale of the market gives an immediate indication of the possible ultimate size of that success.

## 5. FINANCIAL PROJECTIONS

### 5.1 Present position

To date the majority of development has been funded by Konix's associated company, Creative Devices Research Limited. In addition a medium term loan has been secured from the Union Bank of Finland. The present financial position is set out at Appendix C.

### 5.2 Funding required to launch the KMS

Funding necessary to launch the KMS has been identified as:-

	£'000	£'000
Balance of monies due to Korean toolmakers for 24 mould tools		118

	£'000	£'000
Payment for Software Houses to secure their commitment to writing games		120
Launch costs:-		
Balance of stand cost at the P.C. Show, 27th September - 1st October, 1989 -	17	
Stand construction	50	
Advertising costs, Solution Public Relations	20	
McCann Erickson Wales	30	
Travelling and hotel accommodation	20	
Level 6 Chairs	20	
Sundries	23	180
Working capital		<u>82</u>
		<u>500</u>

### 5.3 Ongoing projections

The Business Plan assumes a launch date of Oct. 1. 1989 and projects the anticipated financial results to the company's next year end at 31st July 1990.

### 5.4 Product cost

The basis for any projection has to be an accurate assessment of the KMS cost of production. Konix has made its own detailed calculations as well as seeking quotations from 3 prospective manufacturers.

Daewoo Electronics Limited - Korea  
Action Technology Limited - Hong Kong  
Race Circuits Limited - U.K.

Set out as Appendix D is the complete Bill of Materials for the KMS together with the average costs derived from the above four sources. It should be noted that there was a close correlation between all four estimates; furthermore the fact that potential manufacturers were being asked to quote for a new product suggests that they will have used a reasonable degree of prudence particularly with regard to labour costs.

## 5.5 Principal assumptions

- (i) Sales Volumes - As per Appendix E; no account has been taken of peripheral units.
- (ii) Selling Price - Average of £158 per unit: this represents a price already agreed with Toys R Us.
- (iii) Product cost - As above/Appendix D. Konix will contract out the manufacturing of the KMS
- (iv) Royalties - Payable to key suppliers at the rate of £3 per unit.
- (v) Konix's own administration costs - These are budgeted on a per annum basis as:-

	<u>Approx. Cost</u> £'000
Administration - 6 people	125
Distribution:	
Warehouse 20,000 sq. ft.	60
Workforce 4 people	40
Technical support - 2 people	50
Communication	40
Sundries	<u>50</u>
	<u>365</u>

Say £30,000 per month.

- (vi) Advertising - October to December 1989 £50,000 per month. Thereafter £100,000 per month.

### (vii) Amortisable costs

Development costs and launch - first 50,000 units  
Tooling and Software - first 100,000 units

### (viii) Terms of trade

It is assumed that both debtors and trade creditors will settle or be settled after 45 days. All other costs are met in the month incurred.

- (ix) VAT - ignored.



(x) Research and development - Effective 1st January 1990 £100,000 per month is available for peripheral and enhanced product development.

(xi) Selling costs - £2 per unit.

#### 6. RESULTS OF THE PROJECTIONS

It will be seen from Appendix E that in the first month of operation and immediately upon achieving a production of 10,000 units per month Konix becomes profitable. The scale of profit then rises as a function of a gross profit of £40 per unit and the elimination after the first 50,000 and 100,000 units respectively of amortisable costs associated with earlier development and the launch. This overall position is little affected by increased advertising costs and the commitment, effective Jan. 1990, of £100,000 per month to future research and development associated with peripherals and product enhancement.

So far as cash flow is concerned both against the background of the above profits and on the assumption that debtors and creditors are in balance at 45 days each the company begins to generate cash surpluses very quickly. The existence within the financial package of £82,000 at the beginning of October 1989 will meet the funding of cash expenditure that month until trading surpluses are converted to cash the following month.

#### 7. FUNDING PROPOSAL

It will be clear from an earlier section of this plan that there is a requirement for £500,000 in order to launch the KMS. Once launched the project promises immediate and significant returns.

The Directors remain entirely flexible as to how the funding should be provided. They expect that the nature of the project dictates that the funding will probably be associated with equity participation. At the same time they believe that the advanced state of the development that has already been reached and the likely scale of returns to an investor should be a limiting factor in determining the extent of that equity participation.

KONIX PRODUCTS LIMITED

Technical Specification for Konix Multi-System

Controls

Movement of the column, steering yoke and throttle lever drives three separate potentiometers which provide control signals to the electronics unit. (POTX1, POTY1, POTZ1). The readings from these potentiometers is scaled so that the minimum is around 50 mid-scale 125 and maximum 200. The units can also read a second set of potentiometer inputs (POTX2, POTY2, POTZ2) which are input via the joystick port JOY1. This allows two player games with a slave KMS or input from optional peripherals (e.g. helicopter stick).

Mounted on the end of the handlegrips and on the steering wheel spokes are left and right firebuttons (FIREA1, FIREB1). Buttons are also provided in the wheel rim to allow the handlegrip firebuttons to be pressed.

Mounted in the right hand base pedestal are two control buttons START and SELECT and a Power On indicator lamp. Pressing both buttons together causes the unit to reset.

There is no separate volume control for the sound output. If the SELECT button is held down for 2 to 3 seconds software should recognise this and the throttle control should now control the sound volume (while the SELECT button is still held down).

Ports

Mounted in the left hand base pedestal is a proprietary dual joystick port which allows connection of two independent digital joysticks (Up, Down, Left, Right, FA, FB for ports 1 and 2).

Mounted at the rear of the base are connectors for:-

1. 9V AC Power Input (3.5mm)
2. Expansion Port (8 way DIN)
3. Cartridge Port (56 way PCB)
4. Video In/Out (13 way DIN)
5. Audio Out (3.5mm stereo)

The video port gives outputs of:-

1. RGB Analog
2. PAL/NTSC composite video
3. PAL/NTSC UHF

The unit can be configured as 50Hz PAL or 60 Hz NTSC during manufacture. This cannot be altered by the user. It will accept external RGB and sync. and will overlay internal video on to this (Gen. Lock). External composite video input requires an external converter.

## Electronic Unit

Mounted at the rear of the base unit is a PCB containing the electronic circuitry. Power is obtained from an external plug mounted transformer with a rectifier and regulator supplied on the PCB. The PCB contains an 8086 (8088) microprocessor running at 6 MHz and a custom ASIC running at 12 MHz.

The ASIC provides the following functions:-

A video processor which provides screen display modes of -  
256 x 200 pixels. 8 bits per pixel. Any of 256 colours from 4096  
256 x 200 pixels. 4 bits per pixel. Any of 16 colours from 4096  
512 x 200 pixels. 4 bits per pixel. Any of 16 colours from 4096

In addition there are 4 hardware sprite priority planes available with reduced colour availability (64 colours in 8 bit mode, 4 colours in 4 bit mode from a palette of 4096). Sprite generation is done by software.

A digital signal processor (DSP) with a 16 x 16 multiplier/accumulator. This provides high speed arithmetic capability (12 MIPS burst rate) for calculating vector graphics and synthesised sound. It has on chip cache RAM, 16 bits wide, separate for program (128 words) and data (256 words) to allow maximum speed of operation. It also has 256 words of ROM programmed with a sine wave lookup table which is used during sound synthesis.

A memory Block Transfer Unit (Blitter) which is used to rapidly move images in screen memory. It can also draw lines fill polygons and perform collision detection.

The memory bandwidth available to the Blitter is 12 MBytes/sec when it has exclusive use of the video RAM and 6 MBytes/sec when it shares access with the screen updating. This gives an average bandwidth of 9MBytes/sec. This allows line drawing at 9M pixels/sec, Block moves at 4.5M pixels/sec, polygon fill and Sprite moves with collision detection at 3M pixels/sec. Even the slowest Blitter operation allows complete updating of the screen within 1 TV frame period (1/25 sec).

If complicated vector graphic calculations are also required for screen updating then the frame update rate will be reduced. The actual frame update rate will depend on the screen mode in use, the complexity and number of vector shapes on the screen and other functions being performed at the same time (e.g. sound synthesis) so a typical rate cannot be quoted.

A Memory Management Unit which can control a maximum of four blocks of memory which may be ROM, Dynamic RAM, Static RAM or Pseudo Static RAM and a maximum size of 256K Bytes each. The blocks are allocated as follows:-

### Memory Size Fitted

1. Internal cache RAM	384 Bytes	
2. Video SRAM/Program RAM	128K Bytes	(64K Video SRAM 64 Program RAM)

- 3. Operating System ROM      256 Bytes      ---(In ROM cartridge)
- 4. Cartridge Expansion RAM    512K Bytes      (256K Bytes)

RAM runs at 6MHz and is 16 bits wide to allow sufficient memory bandwidth for simultaneous Screen and Blitter accesses. It uses four 32K x 8 PS RAM chips (64K Bytes). (Two chips 64K Bytes).

{The program RAM is 8 bits wide and runs at 4 MHz. It uses two 64K x 4 dynamic RAM chips (64K Bytes).}

The cartridge port can support up to 512K Bytes of DRAM. It is 16 bits wide and runs at 4 MHz. (The Rev. 1 cartridge port can support up to 256K Byte of ROM (512K Byte with bank switching) and 256K Byte of program RAM expansion. Its data bus is 8 bits wide and runs at 4 MHz.). The PCB also contains small amounts of TTL logic to provide Input/Output ports. There is a channel A/D converter with 7 bit resolution used to read the potentiometer inputs. A power driver for the vibration solenoid is provided. There is discrete component circuitry to convert RGB analog signals to PAL or NTSC composite video and a UHF modulator for TV output (with sound). A low power stereo amplifier is also provided to drive a headphone socket.

Appendix B

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Technical Comparison Between KMS And Existing Systems

Feature	Konix Multi-System	Sega Mega Drive	NEC PC Engine
<u>Screen Display</u>			
Max. Base Colours	4096	512	512
Max. Colours per Screen.	256	64	16
Screen Resolution	256 x 256	320 x 224	256 x 216
<u>Sound</u>			
Output Channels	Stereo	Mono	Mono
Frequency Range	15KHz	8KHz	8KHz
Headphone Socket	Yes	No	No
<u>Processor</u>			
Central Processing Unit	8086, 16 Bit, 6MHz.	68,000, 16 Bit, 8MHz.	6502, 8 Bit
Co-Processors	16 Bit Blitter for Graphics.	Z80, 8 Bit, 4MHz.	-
Program Media Save Game and High Scores	3.5" Disc IMB Yes	Rom Cartridge Cartridge No	ROM Cartridge No
Controller Interface	3 Axis Proportional Realistic, Full Size + Dual Foot Pedals.	2 Axis Digital Thumb Actuated	2 Axis Digital Thumb Actuated
Peripherals	3 Axis Power Chair. Light Gun with recoil. Helicopter Stick. 12 Button Keypad. Interconnect cable for 2 player mode.	-	CD Sound Player

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Overview of Financial Projections  
(All figs. £'000)

	Present Position		Implementation of Funding Package		After Implementation of Funding Package		Movement to 31st July 1990		As at 31st July 1990	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Tooling	60		118		178		178		-	
Intellectual Property Rights (Dev. Costs)	647				647		647		-	
Software			120		120		120		-	
Launch Costs			180		180		180		-	
Trade Debtors							7110		7110	
Trade Creditors								5310		5310
Bank							4743		4825	
Due to assoc. Co.			82		82					
Loan Current Account	400						400			
	157						157			
Medium Term Bank Loan	150						150			
Profit and Loss Account								6125		6125
Share capital							500			500
	707	707	500	500	1207	1207	12560	12560	11935	11935

## AVERAGE PRODUCT COST

KONIX MULTI-SYSTEM  
COMPARISON OF PRODUCT COST

## AVERAGE QUOTED COSTS:-

KONIX  
DAEWOO ELECTRONICS LTD - KOREA  
ACTION TECHNOLOGY LTD - HONG KONG  
FACE CIRCUITS LTD - U.K.

DESCRIPTION	QTY	AVERAGE QUOTED COSTS	DESCRIPTION	QTY	AVERAGE QUOTED COSTS
MAIN CONSOLE:-					
ELECTRICAL PARTS:					
4LS32	1	0.053	DISC DRIVE CABLE		
TC518129F	2	24.000			
SSASIC 160 PIN FLAT PACK	1	11.600	34 WAY RIBBON CABLE	3 MTS	0.67
20u/16V AL ELEC(RADIAL)	9	0.135	34 WAY SOCKET	2	
22pF UP050	1	0.01			
47pF UP050	1	0.01			
7.73444MHz +/-50PPM HC18U	1	0.25	T V CABLE		
086 8MHz NMOS	1	2.000			
1N4148	12	0.048	COAXIAL CABLE	3 MTS	0.2
RES 1/8W 5%	138	0.538	PHONO CONNECTOR	1	
RES 1/8W 1%	6	0.045	TV CONNECTOR	1	
100u/16V AL ELEC(RADIAL)	4	0.090			
9C548	6	0.0675			
2558	3	0.033	VIDEO CABLE		
2F347	1	0.18			
3.5MM SJ-363 SINGATRON	1	0.05	6 WAY CABLE	2 MTS	1.00
47 UP050	3	0.036	8 PIN DIN PLUG	1	
47 UP050	2	0.01	SCART PLUG 6 PINS FITTED	1	
120pF UP050	5	0.05			
180pF UP050	2	0.01			
2nF UP050	3	0.036	PLASTICS		
4016	1	0.07			
1N5391	8	0.112	TOP BASE	1	1.28
4LS365	1	0.07	BOTTOM BASE	1	1.21
053	1	0.11	COLUMN FRONT	1	0.67
1N324	1	0.071	COLUMN BACK	1	0.65
1N 8 DJ-26-8P SINGATRON	2	0.6	HUB	1	0.39
1P130	1	0.145	SPOKE REAR RH	1	0.13
BEAD BLD1RN1 MURATA	20	0.3	SPOKE REAR LH	1	0.13
4049	1	0.07	HANDLE TOP	1	0.09
20u/16V AL ELEC(RADIAL)	3	0.42	HANDLE BASE	1	0.09
100n 10% X7R AXIAL	2	0.04	STEERING WHEEL	1	0.58
11L 5 KOIDE SB20-05WS	1	0.05	ST WHEEL BACK TOP	1	0.21
11L 10 KOIDE CABLE HARNESS	9	2.07	ST WHEEL BACK BOTTOM	1	0.21
11L 4 KOIDE SB20-04WS	4	0.016	DUMMY FIRE BUTTON "L"	1	0.08
PLUG DB25 STRAIGHT	1	0.15	DUMMY FIRE BUTTON "R"	1	0.08
10T PHILLIPS PP17 10K	3	0.555	ST WH RETENTION CLIP	1	0.06
10T 3W WIREWOUND	1	0.041	CLUTCH ROT	1	0.07

SS ROM 44 PIN FLAT PACK	1	1.77	CLUTCH FIXED	1	0.07
HEADER 17X2	1	0.25	HUB LOGO	1	0.07
330pF UP050	2	0.011	WASHER	1	0.04
33nF 20% X7R AXIAL	1	0.02	BUSH	1	0.05
100nF UP050	20	0.25	COLLAR "L"	1	0.08
10nF 20% X7R AXIAL	2	0.016	COLLAR "R"	1	0.08
MODULATOR	1	1.92	COLUMN POS SHAFT	1	0.04
1nF UP050	3	0.03	RETENTION WASHER	1	0.04
470pF UP050	1	0.01	SLIDING DOG	1	0.09
10uH 10% LAL02	2	0.2	GAME SELECT ACTUATOR	1	0.04
FUSE 2A	1	0.05	SPEED CONTROL ACTUATOR	1	0.1
MC1377	1	0.63	SPEED CONTROL SHAFT	1	0.04
P.C.B.	1	3.5	PEDAL UNIT TOP	1	0.54
HEAT-SINK	1	0.073	PEDAL UNIT BASE	1	0.57
470u/16V AL ELEC(RADIAL)	2	0.08	PEDAL "L"	1	0.17
8PKE6.8 MOTOROLA GSI	1	0.15	PEDAL "R"	1	0.17
LM317	1	0.15	CARTRIDGE CASE TOP	1	0.14
7805	1	0.1	CARTRIDGE CASE BASE	1	0.14
DJ 005 SINGATRON	1	0.08	SHAFT	1	0.1
			NEW WASHER	1	0.05
SWITCH/POTENTIOMETER HARNESS					
BPST KRAFT FIRE BUTTON	6	0.7	PACKAGING		
SOLENOID			GIFT BOX	1	0.81
500T 0.31MM BOBBIN			POLYFOAM END CAP (1 SET)	1	1.1
STEEL CORE	2	0.6	MANUAL	1	0.04
LAMP			LABELS	3	0.11
5MM RED LED ROUND T-1 3/4	1	0.05	SHIPPING CARTON	1/3	0.2
			DISKETTE 3.5"	1	1.00
POWER SUPPLY			POLY BAG	1	0.14
PLUG MOUNTED 9V SA A.C.	1	2.5	INSERT	1	0.33
			WARRANTY	1	0.01
DISC DRIVE			C.I.F. (WHERE APPL)		4.00
3.5 INCH 1MB UNFORMATTED	1	20.00	FLARE ROYALTY		1.00
(EPSON SMD-380)			SOFTWARE ROYALTY		1.00
(CHINON FX-354)			SUB CON/LABOUR		
(TEAC FD-235F)			HANDLING PROFIT 15%		14.55
			TOTAL		34.61
			SUB TOTAL		77.1195
			TOTAL MANUFACTURED COST		111.7295



## KONIX PRODUCTS LIMITED

## Forecast Profit and Loss Account October 1989 to July 1990

	1989			1990			Total for year
	October	November	December	per month	sub total	sub total	
Sales unit volume (units)	10,000	20,000	20,000	30,000	210,000	260,000	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Sales Income	1,580	3,160	3,160	4,740	33,180	41,080	
Product cost	1,180	2,360	2,360	3,540	24,780	30,680	
Royalties	30	60	60	90	630	780	
Amortisation							
Dev. cost/launch	170	340	317	-	-	827	827
Tooling/Software	30	60	60	90	148*	298	
Administration costs	30	30	30	30	210	300	
Selling commissions	20	40	40	60	420	520	
Advertising	50	50	50	100	700	850	
Research and Dev.	-	-	-	100	700	700	
	1,510	2,940	2,917	4,010	27,588	34,955	
Net Profit	70	220	243	730	5,592	6,125	

\* Amortisation ceases after 50,000 and 100,000 units respectively