

Message to Investors

We would like to take this opportunity to welcome all of our investors. We are sorry for the delay in getting in touch, but at least this message demonstrates that we're not dead. Actually, far from it.

The DiscovaCam project has encountered a number of challenges since it raised its initial capital. These challenges have disrupted the original business plan, and forced the planning of alternative solutions. Ironically, these changes have nothing to do with DiscovaCam's technology, but external factors that were not predicted.

The two main factors are:

1. The U.S. government changed the domestic law regulating the credit card industry. The two main credit card suppliers, VISA and Mastercard, then changed their policies in reaction to the legal changes, and applied those changes globally - despite no requirement to do so. The primary change in credit card policy has been to transfer the risk for fraudulent debt to the franchising banks. As a result, the banks reviewed their portfolio of merchants and collectively decided that the main risk from fraud comes from expensive (US\$200+) items. The banks' solution to this problem has been to cancel the merchant status of many suppliers fitting this profile and to restrict applications for merchant status.

DiscovaCam was planning to use the credit card system to receive payment for its products, and this change effectively removed the company's ability to be paid for orders.

2. The demand for electronic products exceeded supply during 2000, and the order queue for many products grew beyond one year. As a result, DiscovaCam was having difficulties matching alternative product designs with the procurement of sufficient component volumes to realise the business plan.

As you appreciate, this product has a window of opportunity to rapidly grow marketshare. It was considered better to delay and redesign the product than risk launching a product with insufficient stock to meet demand.

The two issues have now both been solved. The first problem has led to the forming of another new venture to manage payment services, and the business planes for this new service have been developed since October 2000. The second issue has been solved by the U.S. economic slowdown, as component manufacturers have unexpectedly fulfilled all orders and now have excessive production volume – unexpected, as industry analysts were not expecting the next cyclical product glut for another couple of years.

Hence, the two major impediments to DiscovaCam's launch have been removed. However, during the intervening period the promoter has refrained from finalising the company's registration. A number of alternative plans have been considered to progress the DiscovaCam project, and whether it is appropriate to restructure the venture in a different format. In the rapidly changing environment, it has been practically impossible to provide meaningful communication to investors, as the situation remained in flux for months.

However, with the solution to both major impediments to the business, and the raising of some additional capital to launch the product, the project is back on track and the original structure remains the preferred option – hence no restructuring of securities.

It is now expected that the company will become fully operational and returning positive cash flow by no later than October 2002 – ten months later than the original projection.

A revised Business Plan has been prepared and a copy is included for your reference. There have been some changes, principally the outsourcing of production.

The last shares are being allocated to second round investors, and with the completion of this step, the company can be registered and shares officially allocated. New Zealand law states that shares that are allocated after the initial share allocation are a secondary issue, and this would cause a tax liability as shares that are traded within nine months of a company being established are considered to be taxable as profit – effectively a capital gains tax.

As a result, all shares must be allocated at the same time. We strongly recommend that you do not sell these shares for at least nine months, to avoid a tax problem. A mechanism will be set up to allow investors to liquidate investment as desired.

In the interim, the company should be able to post its first dividend once it achieves positive cash flow. However, please note that decision will rest with the board of directors at that time rather than the promoter.

We thank you for your patience and we look forward towards a profitable future.

Robert South

Promoter,
DiscovaCam,
May 2002