

# SINCLAIR ASSOCIATES

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Mr Darren Bolger  
230 Keevil Drive  
Southfields  
LONDON  
SW19 6TD

Your Ref:

Our Ref: DGS/CL/SA

Date: 15 November 2010

## **PRIVATE AND CONFIDENTIAL**

Dear Mr Bolger

### **POTENTIAL CLAIM BY CUT ABOVE THE REST LIMITED**

I refer to our discussions and our preliminary review.

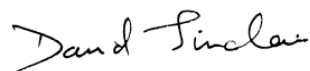
- 1 This note is not intended to limit the level or extent of the Company's claims. It has not been subject to any detailed review or verification and is an initial memorandum only. It should not be relied upon as to evidencing the level of limit of claim which could be higher or could be considerable less. This memorandum cannot be produced for evidential purposes.
- 2 The claim relates to the loss of potential profit suffered by the Company as a result of Magnet's refusal to supply materials on terms that the Company consider were agreed and contracted between Magnet and themselves at fixed prices for periods of up to 3 years.
- 3 The initial mark-up on products being sold by the Company was up to 75% giving a gross margin of 43%. Whilst this margin may well have been maintained at lower volumes it is inevitable that the margin may have shrunk to say 20%.
- 4 I am advised by you that the indicative business levels of at least £100million per quarter from one major customer were promised. I will assume that other business across the UK would double that sales volume. A total of £800 million per annum or £2.4 billion over 3 years. I am ignoring any export potential as the Company may well have suffered extra distribution costs.

- 5      £100 million times four quarters and then doubled for other sales at a 20% margin creates an annual margin of £160 million. As the business was to be in effect a wholesaling business with no stock holding or delivery costs the administration costs would have been relatively low at the 2-3% level or lower.
  
- 6      Any claim would need to take into careful consideration the ability of the Company to operate at these levels, the risk of competition from Magnet who could undercut and erode the Company's margins, economic, industry and commercial considerations, financial ability of the Company and numerous other factors.
  
- 7      Even if net margins were drastically eroded to the 5% level and aggregate sales were only £1billion rather than the £2.4billion the loss might have been £50million. Obviously it could have been considerably higher or lower. Further in detail assessment of the losses will be provided as required.
  
- 8      We are not expressing any opinion as to the legal and contractual validity of the claim.

We trust that this is sufficient guidance for the time being.

Naturally we shall be pleased to assist you further

Yours sincerely



David Sinclair