

Our reference TXH/JCK

10 January 2003

Mr N Brabbins  
Sense-Sonic Limited  
Beech House  
Overthorpe  
Banbury  
Oxfordshire  
OX17 2AE

Dear Nigel

### **Cash backed guarantee by Galileo and Paul Davidson for Sense-Sonic indebtedness**

As promised, I have summarised below the potential liability for Sense-Sonic (**Company**) and its directors in relation to a breach of the Companies Act 1985 (**CA 1985**) by virtue of Galileo providing a cash backed guarantee for the bank facilities of the Company as detailed in paragraph 2.1 of the due diligence report.

### **Section 330 CA 1985**

Section 330 of the CA 1985 imposes a general restriction on such arrangements by virtue of the fact that Paul Davidson is a director of Galileo and also a shareholder of more than one fifth of the equity share capital in the Company.

### **Consequences of breach the CA 1985**

There are both civil and criminal penalties for breach of the relevant provisions of the CA 1985.

#### *(a) Civil remedies*

The transaction is voidable at the option of the company entering into the transaction (i.e. Galileo) and no-one else. As a result Galileo could rescind the transaction and recover any money involved (there is no time limit for the rescission). The consequences of the banking facilities no longer being cash backed would then ensue.

The Company is also liable to account to Galileo for any direct or indirect gain it has made, as well as being jointly and severally with Galileo's board to indemnify Galileo for any loss or damage suffered.

H:\1\MERBUCK\JCK\JCK044(V1).DOC



INVESTOR IN PEOPLE

(b) *Criminal penalties*

Only the director and the company entering into the transaction (i.e. Paul Davidson and Galileo) would be guilty of a criminal offence. Thus the penalties imposed by the CA 1985 in this respect hold no implications for the Company or for its directors personally.

**Conclusion**

In conclusion, the main risk that the Company faces in respect of a breach of section 330 of the CA 1985 by Galileo is a lack of security over their debts to Barclays Bank PLC if Galileo decide to remove its cash security before the admission to AIM (at which point the Company's debts will be cleared by the funds received from the placing).

We recommend that the Company obtain a waiver from Galileo in respect of any claims that it may have against the Company in relation to a breach of section 330 CA 1985 so as to avoid any liability for loss or damage suffered by Galileo. We suggest that this waiver is included within the warranties given by Galileo as set out in the [*placing agreement?*].

If anything in this letter is unclear, or if there is any matter on which you would like to receive further information or advice, please do not hesitate to contact me on the number detailed below.

Yours sincerely

**Tim Hamilton**

Partner

Direct line 0161 934 6650

Email [tim.hamilton@addleshawbooth.com](mailto:tim.hamilton@addleshawbooth.com)