

Aavid Thermalloy UK Holdings Limited and subsidiary undertakings

Annual report and consolidated accounts
for the year ended 31 December 2003

Registered number: 3859614



Directors, officers and advisers

Directors

B R Patel
J W Mitchell

Secretary

J W Mitchell

Registered office

Cheney Manor
Swindon
SN2 2QN

Auditors

Ernst & Young LLP
Apex Plaza
Reading
RG1 1YE

Bankers

HSBC Bank Plc
Swindon Civic Centre Branch
Swindon
SN1 1PW

Solicitors

Macfarlanes
10 Norwich Street
London
EC4A 1BD

Directors' report (continued)

For the year ended 31 December 2003

The directors present their annual report on the affairs of the group, together with the consolidated accounts for the year ended to 31 December 2003.

Principal activities

The principal activity of the company is that of an investment holding company. The principal activity of the group is the manufacture of semiconductor heatsink units and accessories.

Results and dividends

The group's loss for the year after taxation was £5,951,000 (2002: £268,000). The directors are unable to recommend a dividend (2002: £nil).

Business review

The directors expect the general level of activity to continue for the foreseeable future.

The consolidated accounts have been prepared on the going concern basis because the parent company, Aavid Thermal Technologies Inc, has agreed to provide the group with sufficient financial support to enable it to meet its debts as they fall due for a period of 12 months from the date of approval of these accounts.

Research & development

During the year the group's R&D effort focused on a number of areas including vacuum brazing processes, enhancement of the bonding process, use of lead-free solderable elements and the application of new interface materials.

Directors and their interests

The directors who served during the year were as follows:-

B R Patel
J W Mitchell

None of the directors had any interests in the share capital of the company requiring disclosure under the Companies Act 1985.

Directors' responsibilities

United Kingdom company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and

Directors' report (continued)

For the year ended 31 December 2003

Directors' responsibilities (continued)

- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


Auditors

The directors will propose a resolution at the company's Annual General Meeting to reappoint Ernst & Young LLP as auditors for the ensuing year.

Cheney Manor
Swindon
SN2 2QN

By order of the Board,



B R Patel 
Director

28th September 2004

Independent auditors' report to the members of Aavid Thermalloy UK Holdings Limited

We have audited the group's financial statements for the year ended 31 December 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

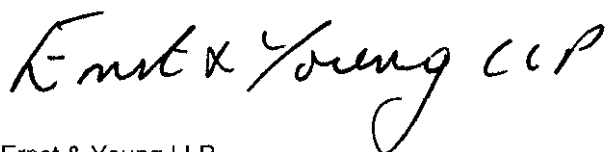
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Aavid Thermalloy UK Holdings Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Ernst & Young LLP
Registered Auditor
Apex Plaza
Reading
RG1 1YE

28 October 2004

Consolidated profit and loss account
For the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Turnover	2	7,395	6,722
Cost of sales		(4,916)	(4,369)
Gross profit		2,479	2,353
Selling and distribution		(994)	(999)
Administration		(1,464)	(1,423)
Operating profit / (loss)		21	(69)
Impairment of goodwill		(5,745)	0
Interest receivable	3	54	29
Interest payable and similar charges	4	(281)	(278)
Loss on ordinary activities before taxation	5	(5,951)	(318)
Tax credit on loss on ordinary activities	7	-	50
Loss on ordinary activities after taxation, being retained loss for the year	16	(5,951)	(268)

There were no recognised gains or losses other than the loss for each period. Accordingly, a statement of total recognised gains and losses has not been presented.

The accompanying notes are an integral part of this profit and loss account.

All results are derived from continuing operations.

Consolidated balance sheet
31 December 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Goodwill	8	0	6,876
Negative goodwill	8	0	(769)
		0	6,107
Tangible assets	9	738	904
		738	7,011
Current assets			
Stocks	11	944	652
Debtors	12	3,606	3,226
Cash at bank and in hand		-	445
		4,550	4,323
Creditors: Amounts falling due within one year	13	(7,527)	(7,400)
Net current liabilities		(2,977)	(3,077)
Total assets less current liabilities		(2,239)	3,934
Provisions for liabilities and charges	14	-	(222)
Net (liabilities)/assets		(2,239)	3,712
Capital and reserves			
Called-up share capital	15	3,142	3,142
Share premium account	16	3,000	3,000
Profit and loss account	16	(8,381)	(2,430)
Equity shareholders' funds	16	(2,239)	3,712

The accompanying notes form an integral part of this consolidated balance sheet.

The accounts were approved by the board of directors on 18 September 2004 and were signed on its behalf by:




B R Patel
Director

Company balance sheet
31 December 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Investments	10	5,032	13,261
Creditors: Amounts falling due within one year	13	(8,244)	(8,007)
Net current liabilities		(8,244)	(8,007)
Total assets less current liabilities		(3,212)	5,254
Net (liabilities)/assets		(3,212)	5,254
Capital and reserves			
Called-up share capital	15	3,142	3,142
Share premium account	16	3,000	3,000
Profit and loss account	16	(9,354)	(888)
Equity shareholders' funds		(3,212)	5,254

The accompanying notes form an integral part of this balance sheet.

The accounts were approved by the board of directors on 28 September 2004 and were signed on its behalf by:


B R Patel
Director

28 September 2004

Notes to consolidated accounts

31 December 2003

1 Accounting policies

The principal accounting policies of the group are summarised below. They have all been applied consistently throughout the year and the previous period.

a) Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The accounts have been prepared under the going concern basis of accounting because the company's ultimate parent undertaking, Aavid Thermal Technologies Inc, has agreed to provide the financial support necessary to enable the group to continue to be able to meet its debts as they fall due for a period of twelve months from the date of approval of these accounts.

b) Basis of consolidation

The group accounts consolidate the accounts of the company and its subsidiary undertakings drawn up to 31 December 2003. The results of subsidiaries acquired are consolidated for the periods from which control passed. Acquisitions are accounted for under the acquisition method with goodwill, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, being capitalised and amortised over of its useful economic life, being twenty years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

No profit and loss account for the company has been presented as permitted by the Companies Act 1985. The company's loss for the period, determined in accordance with the Act, was £8,466,000 (2002 – profit of £553,000).

c) Cash flow statement

The group has taken advantage of the exemption available under Financial Reporting Standard No.1 (revised), 'Cash Flow Statements', not to present a cash flow statement because the accounts of the group are included in the consolidated accounts of its parent company, Aavid Thermal Technologies Inc, which include a cash flow statement.

d) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value over their useful economic lives as follows:

Plant and machinery	4-5 years
Fixtures, fittings and equipment	3-20 years
Leasehold land and buildings	over the term of the lease

Notes to consolidated accounts (continued)

31 December 2003

1 Accounting policies (continued)

d) Tangible fixed assets (continued)

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

e) Investments

Fixed asset investments are stated at cost less any provision for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

f) Leases

Operating lease rentals are charged to the profit and loss account over the period of the lease.

g) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufactured overheads based on normal levels of activity. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made where necessary for obsolete, slow-moving and defective stocks.

h) Foreign currency

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at the exchange rate ruling at the balance sheet date. All exchange gains/losses arising are dealt with through the profit and loss account.

i) Turnover

Turnover represents amounts invoiced for goods and services provided, net of trade discounts, VAT and other sales related taxes.

j) Product development

Product development expenditure is charged to the profit and loss account in the period in which it is incurred.

k) Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that will result in an obligation to pay more, or right to pay less, tax in the future have occurred at the balance sheet date, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Notes to consolidated accounts (continued)

31 December 2003

1 Accounting policies (continued)

k) Taxation (continued)

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

l) Pension costs

The group's employees have the option to join a defined contribution group personal pension plan. Contributions payable by the group to this defined contribution plan are charged to the profit and loss account in the period to which they relate and any outstanding amounts are included at the balance sheet in accruals at the year-end.

2 Turnover

The turnover and profit before taxation were attributable to the group's principal activity. The directors are of the opinion that any further disclosure of the source and destination of the group's turnover would be seriously prejudicial to the business.

3 Interest receivable

	2003 £000	2002 £000
Bank interest receivable	10	11
Interest receivable from group undertakings	44	18
	<hr/> 54	<hr/> 29

4 Interest payable and similar charges

	2003 £000	2002 £000
Interest on intercompany loan	(237)	(260)
Interest on bank loan	(44)	(18)
	<hr/> (281)	<hr/> (278)

Notes to consolidated accounts (continued)

31 December 2003

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2003 £000	2002 £000
Amortisation of goodwill	407	407
Amortisation of negative goodwill	(45)	(45)
Write-off of goodwill	6,469	-
Write-back of negative goodwill	(724)	-
Depreciation of owned assets	227	243
Foreign exchange loss/(gain)	7	(419)
Product development costs	233	250
Operating lease rentals		
- property	102	225
Hire of plant and machinery	16	11
Auditor's remuneration		
- audit services	29	27
- non-audit services	16	14

6 Staff costs

The average monthly number of employees of the group during the period was:

	2003 Number	2002 Number
Manufacturing	43	45
Selling and distribution	16	19
Administration	7	9
	<u>66</u>	<u>73</u>

	2003 £000	2002 £000
Their payroll costs were:		
Wages and salaries	1,181	1,265
Social security costs	115	119
Other pension	52	53
	<u>1,348</u>	<u>1,437</u>

Notes to consolidated accounts (continued)

31 December 2003

6 Staff costs (continued)

Directors' remuneration

The directors received no remuneration from the company or its subsidiary undertakings for their services to the company during the period. The number of directors to whom retirement benefits are accruing under defined benefits schemes is nil (2002: nil).

7 Tax on loss on ordinary activities

	2003 £000	2002 £000
The tax charge credit comprises:		
UK corporation tax		
Adjustment in respect of prior years	-	50
Deferred tax		
Adjustment in respect of prior years	-	-
	<u>-</u>	<u>50</u>
	2003 £000	2002 £000
Loss on ordinary activities	(5,951)	(318)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	<u>(1,785)</u>	<u>(95)</u>
Effect of:		
Expenses not deductible for tax purposes	15	4
Capital allowances in excess of depreciation	(49)	(78)
Other timing differences	(2)	(78)
Adjustment in respect of prior years	-	(50)
Unrelieved tax losses	(10)	139
Impairment of goodwill for tax purposes	1,831	108
	<u>-</u>	<u>(50)</u>

A deferred tax asset of £311,000 (2002: £372,000) exists at the year end. The assets made up of accelerated depreciation and other timing differences. The asset has not been recognised as it does not fulfil the recognition criteria of FRS 19.

Notes to consolidated accounts (continued)
31 December 2003

8 Goodwill

Group

	2003	2002
	£000	£000
<i>Positive goodwill</i>		
Cost		
At 1 January	8,149	8,149
Amortisation		
At 1 January	(1,273)	(866)
Charge for period	(407)	(407)
Write-off of goodwill	(6,469)	-
At 31 December	(8,149)	(1,273)
Net book value		
At 31 December	-	6,876
<i>Negative goodwill</i>		
Cost		
At 1 January	(900)	(900)
Amortisation		
At 1 January	131	86
Charge for period	45	45
Write-back of negative goodwill	724	-
At 31 December	900	131
Net book value		
At 31 December	-	(769)

Notes to consolidated accounts (continued)
31 December 2003

9 Tangible fixed assets

Group

	Short leasehold property £000	Fixtures and fittings £000	Plant and Machinery £000	Total £000
Cost				
At 1 January 2003	78	744	565	1,387
Additions	-	29	37	66
Disposals	-	(9)	(22)	(31)
At 31 December 2003	78	764	580	1,422
Depreciation				
At 1 January 2003	(18)	(198)	(267)	(483)
Charge for the period	(6)	(104)	(117)	(227)
Disposals	-	9	17	26
At 31 December 2003	(24)	(293)	(367)	(684)
Net book value				
At 31 December 2003	54	471	213	738
At 31 December 2002	60	546	298	904

10 Fixed asset investments

Investments in subsidiary undertakings

	Company 2003 £000
Cost at 1 January 2003 and 31 December 2003	13,261
Amounts provided:	
At 1 January 2003	-
Impairment	8,229
At 31 December 2003	8,229
Net book value at 31 December 2003	5,032
Net book value at 1 January 2003	13,261

Notes to consolidated accounts (continued)

31 December 2003

10 Fixed asset investments (continued)

The investments in Aavid Thermalloy Limited and Aavid Thermalloy UK Limited have been impaired to the recoverable amount as at 31 December 2003.

The principal investments of the company and group are set out below. The company owned 100% of the issued ordinary share capital of each company listed.

<i>Name</i>	<i>Country of registration or incorporation</i>	<i>Nature of business</i>
Aavid Thermalloy Limited	England and Wales	Manufacture of semiconductor heatsink units and accessories
Aavid Thermalloy (UK) Limited	England and Wales	Non-trading
Aavid Thermalloy International Limited	England and Wales	Non-trading

11 Stocks

	Group 2003 £000	Group 2002 £000
Raw materials	270	347
Work in progress	99	38
Finished goods	575	267
	<hr/> 944	<hr/> 652

12 Debtors

	Group 2003 £000	Group 2002 £000
<i>Due within one year:</i>		
Trade debtors	1,396	1,008
Owed by group undertakings	2,050	1,871
Prepayments and accrued income	91	112
Corporation tax recoverable	69	235
	<hr/> 3,606	<hr/> 3,226

Notes to consolidated accounts (continued)
31 December 2003

13 Creditors: amounts falling due within one year

	2003 Group £000	2003 Company £000	2002 Group £000	2002 Company £000
Bank overdraft	183	-	-	-
Bank loan (secured)	1,027	-	849	-
Trade creditors	518	-	325	-
Amounts owed to group undertakings	5,558	8,244	5,959	8,007
Other creditors including taxation and social security	45	-	42	-
Accruals and deferred income	196	-	225	-
	<u>7,527</u>	<u>8,244</u>	<u>7,400</u>	<u>8,007</u>

The amounts owed to group undertakings are repayable on demand and bear interest at commercial rates.

The secured bank loan represents a revolving loan from the LaSalle Bank of Chicago, USA, which forms part of a group-wide financing arrangement. The loan bears interest at a margin of 0.5% above LIBOR and is secured by a charge over the trade debtors of the Company.

Notes to consolidated accounts (continued)

31 December 2003

14 Provisions for liabilities and charges

	Group 2003 £000	Group 2002 £000
Property costs	-	222

The movement in the provisions for liabilities and charges during 2003 was as follows:

<i>Property costs</i>	£000
At 1 January 2003	222
Utilised in the year	(222)
At 31 December 2003	-

15 Called-up share capital

	2003 £000	2002 £000
<i>Authorised</i>		
7,520,200 ordinary shares of £1 each	7,520	7,520
<i>Called-up, allotted and fully paid</i>		
3,141,890 ordinary shares of £1 each	3,142	3,142

Notes to consolidated accounts (continued)

31 December 2003

16 Reconciliation of group equity shareholders' funds and movements on reserves

Group	Share capital £000	Share Premium Account £000	Profit and loss account £000	Total £000
At 1 January 2002	3,142	3,000	(2,162)	3,980
Loss for the year	-	-	(268)	(268)
At 31 December 2002	3,142	3,000	(2,430)	3,712
Loss for the year	-	-	(5,951)	(5,951)
At 31 December 2003	3,142	3,000	(8,381)	(2,239)

Company	Share capital £000	Share Premium Account £000	Profit and loss account £000	Total £000
At 1 January 2002	3,142	3,000	(1,441)	4,701
Profit for the period	-	-	553	553
At 31 December 2002	3,142	3,000	(888)	5,254
Loss for the year	-	-	(8,466)	(8,466)
At 31 December 2003	3,142	3,000	(9,354)	(3,212)

At 31 December 2003, the Company's debt to equity ratio is greater than 1:1. The Company plans to review its equity structure in 2004 and convert intercompany debt to equity in an amount sufficient to maintain adequate capitalization.

17 Operating lease commitments

The group has commitments under the following operating leases.

	Other 200 £00	Land and Buildings 200 £00	200 £00	200 £00
Annual commitments which expire:				
Less than 1 year			4	4
Between two and five years		1	4	4
After five years			5	17
	1	1	15	27

Notes to consolidated accounts (continued)

31 December 2003

18 Pension arrangements

The group's employees have the option to join a defined contribution group personal pension plan. Contributions payable by the group to this defined contribution plan are charged to the profit and loss account in the period to which they relate and any outstanding amounts are included at the balance sheet in accruals at the year-end.

The total pension charge during the year was £52,000 (2002: £53,000). Outstanding pension contributions included in the balance sheet at the year-end were £6,311 (2002: £6,621).

19 Guarantees and financial commitments

As part of a worldwide financing arrangement entered into by the Aavid group with LaSalle Bank of Chicago, USA, the company has entered into a joint and several cross-guarantees of the borrowings of various fellow subsidiary undertakings by way of a charge over its trade debtors. At the date of approval of these accounts, the amount subject to this guarantee was \$16.7m.

20 Post balance sheet event

In 2004 Aavid Thermalloy UK Holdings Limited intends to wind-up its two dormant subsidiary undertakings, Aavid Thermalloy (UK) Limited and Aavid Thermalloy International Limited. This will be completed via the payment of dividends to Aavid Thermalloy UK Holdings Limited upon wind-up.

21 Related party transactions

As the Company is a wholly owned subsidiary undertaking of Aavid Thermal Technologies Inc., a company registered in the USA, which prepares publicly available consolidated accounts, the Company has taken advantage of the exemption provided under the scope of FRS 8 not to include details of transactions with other companies in the Aavid Group. There are no other related party transactions.

22 Ultimate parent undertaking

The only larger group in which the results of the group are consolidated is that headed by the ultimate parent company, Aavid Thermal Technologies Inc., a company registered in the USA. The consolidated financial statements of Aavid Thermal Technologies Inc. are available from One Eagle Square, Suite 509, Concord, New Hampshire 03301, USA.