Solectron UK Limited

Directors' report and consolidated financial statements

Registered number 02843090

30 August 2003

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 August 2003.

Principal activity

The company is a holding company for Solectron Scotland Limited.

Business review

During the year to August 2003, the group experienced continued price and cost pressure in the marketplace coupled with a significant reduction in expected demand. As a result, further restructuring activity was required. It is anticipated that these actions should result in improved performance in 2004, ultimately returning the group to profitability.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend and propose that the retained loss for the year of £24,202,000 *(2002: £39,332,000)* be transferred to reserves.

Research and development

The group engages in the development of interconnect technology and world class manufacturing processes.

Directors and directors' interests

The directors who held office during the year were as follows:

W Ligan (appointed 2 February 2004)
R Aeschliman (resigned 2 February 2004)
W Mitchell (resigned 3 February 2003)
PG Hayes (appointed 2 February 2004)

The director who held office at 30 August 2003 did not hold any beneficial interest in the issued share capital of the company during the period.

Employees

Applications for employment of disabled persons are always fully considered, bearing in mind the respective attitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the company's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of a person who is fortunate not to suffer from a disability.

It is group policy to keep employees informed regarding the achievements and prospects of the group. In particular team briefing is in operation at the trading company's locations.

Directors' report *(continued)*

Political and charitable contributions

The group made no political contributions during the year. Donations to UK charities amounted to £8,000 (*2002: £6,727*).

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

KDM·Gr

KD McGreevy
Secretary

100 New Bridge Street
London
10 December 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that year. In preparing those financial statements, 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 financial statements;
- prepare the financial statements 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

Report of the independent auditors to the members of Solectron UK Limited

We have audited the financial statements on pages 5 to 19.

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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit opinion

We conducted our audit in accordance with 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 August 2003 and the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

10 December 2004

Consolidated profit and loss account
for the year ended 30 August 2003

	Note	**2003** **£000**	2002 £000
Turnover	*2*	**155,449**	95,144
Cost of sales		**(155,862)**	(84,911)
Gross (loss)/ profit		**(413)**	10,233
Distribution costs		**(1,283)**	(4,698)
Administrative expenses		**(15,923)**	(14,488)
Other operating income/(expenses)		**1,646**	(1,943)
Operating loss		**(15,973)**	(10,896)
Fundamental restructuring costs		**(7,179)**	-
Impairment of goodwill	*10*	**-**	(38,394)
Interest receivable and similar income	*6*	**1,016**	892
Interest payable and similar charges	*7*	**(3,348)**	(2,905)
Waiver of group indebtedness	*8*	**1,189**	11,971
Loss on ordinary activities before taxation	*3*	**(24,295)**	(39,332)
Tax on loss on ordinary activities	*9*	**93**	-
Retained loss for the financial year		**(24,202)**	(39,332)
Retained loss brought forward		**(43,760)**	(4,428)
Retained loss carried forward		**(67,962)**	(43,760)

There are no recognised gains or losses other than the loss for the current and previous financial years.

Consolidated balance sheet
at 30 August 2003

	Note	2003		2002	
Fixed assets		**£000**	**£000**	£000	£000
Tangible assets	*11*		**15,276**		25,148
Current assets					
Stocks	*13*	**32,806**		58,119	
Debtors	*14*	**52,464**		63,066	
Cash at bank and in hand		**22,989**		42,812	
		108,259		163,997	
Creditors: amounts falling due within one year	*15*	**(71,220)**		(104,130)	
Net current assets			**37,039**		59,867
Total assets less current liabilities			**52,315**		85,015
Creditors: amounts falling due after more than one year	*16*		**(1,400)**		(8,609)
Provisions for liabilities and charges	*17*		**(2,641)**		(3,930)
Net assets			**48,274**		72,476
Capital and reserves					
Called up share capital	*18*		**-**		-
Capital contribution	*19*		**116,236**		116,236
Profit and loss account	*19*		**(67,962)**		(43,760)
Equity shareholders' funds	*20*		**48,274**		72,476

These financial statements were approved by the board of directors on 10 December 2004 and were signed on its behalf by:

W Ligan
Director

Company balance sheet
at 30 August 2003

	Note	£000	2003 £000	£000	2002 £000
Fixed assets					
Investments	*12*		**91,341**		114,627
Debtors	*14*	**1,932**		-	
Creditors: amounts falling due within one year	*15*	**(44,999)**		(42,151)	
			(43,067)		(42,151)
Net assets			**48,274**		72,476
Capital and reserves					
Called up share capital	*18*		**-**		-
Capital contribution	*19*		**116,236**		116,236
Profit and loss account	*19*		**(67,692)**		(43,760)
Equity shareholders' funds	*20*		**48,274**		72,476

These financial statements were approved by the board of directors on 10 December 2004 and were signed on its behalf by:

W Ligan
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements. The group has adopted FRS 19 'Deferred tax' in these financial statements. The group has followed the transitional arrangements of FRS 17 'Retirement benefits' in these financial statements.

The group's financial reporting year consists of either 52 or 53 week periods ending on the last Friday in August.

Basis of preparation

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the company's voting rights are controlled within the group headed by Solectron Corporation, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Solectron Corporation, within which this company is included, can be obtained from the address given in note 22.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 August 2003. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. Provision for impairment is made when considered necessary.

Negative goodwill arising on business combinations is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	2% per annum
Installations	-	5% per annum
Plant and machinery	-	20%-50% per annum

No depreciation is provided on freehold land or assets under construction.

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Government grants

Government grants are included within deferred income in the balance sheet and credited to profit and loss account over the estimated useful economic lives of the assets to which they relate.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The company operates a defined benefits and a defined contribution pension scheme. The assets of the schemes are held separately from those of the company.

Contributions to the defined benefits scheme are charged to the profit and loss account in accordance with the advice of an independent actuary so as to spread the cost of pensions over employees' working lives with the company.

Contributions in respect of the defined contribution scheme are charged to the profit and loss account as incurred.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

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 tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

Notes *(continued)*

2 Analysis of turnover and profit on ordinary activities before taxation

All turnover and profit on ordinary activities before taxation relate to the company's principal activity.

	2003 £000	2002 £000
Turnover by geographical market		
United Kingdom	**135,142**	64,992
Rest of Europe	**9,765**	24,643
Americas	**4,136**	2,786
Asia/Pacific	**6,406**	2,723
	155,449	95,144

3 Loss on ordinary activities before taxation

	2003 £000	2002 £000
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration:		
Audit	**85**	23
Other services	**58**	27
Depreciation	**6,454**	2,922
Hire of plant and machinery	**318**	137
Hire of other assets	-	75
Research and development expenditure	-	37
Government grants	**(2)**	(123)

4 Fundamental reorganisation costs

	2003 £000	2002 £000
Fixed asset write downs	**3,152**	-
Restructuring costs	**4,027**	-
	7,179	-

5 Staff numbers and costs

None of the directors received any emoluments during the year.

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2003	2002
Production	**589**	251
Sales and marketing	**6**	2
Administration	**495**	228
	1,090	481

Notes *(continued)*

5 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	**19,063**	10,888
Social security costs	**1,800**	980
Pension costs: defined benefits scheme	**191**	32
defined contribution scheme	**623**	240
	21,677	12,140

6 Interest receivable and similar income

	2003 £000	2002 £000
From group companies	**643**	-
Bank interest	**195**	892
Other interest	**178**	-
	1,016	892

7 Interest payable and similar charges

	2003 £000	2002 £000
On bank overdraft	**228**	428
To group companies	**3,120**	1,237
On all other loans	**-**	1,240
	3,348	2,905

8 Waiver of group indebtedness

£1,189,000 of group indebtedness was waived during the year. During the previous year £7,000,000 of the outstanding principal of a loan from a fellow group company was waived. In addition accrued interest on loans from a group company totalling £4,971,000 was waived.

9 Tax on loss on ordinary activities

Analysis of charge in period

	2003 £000	2002 £000
UK corporation tax		
Current tax on income for the period	**-**	-
Adjustment in respect of previous periods	**(93)**	-
Tax on loss on ordinary activities	**(93)**	-

Notes *(continued)*

9 Tax on loss on ordinary activities *(continued)*

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (*2002: higher*) than the standard rate of corporation tax in the UK (30%, *2002: 30%*). The differences are explained below.

	2003 £000	2002 £000
Current tax reconciliation		
Loss on ordinary activities before tax	**(24,295)**	(8,698)
Current tax at 30% (*2002: 30%*)	**(7,288)**	(2,609)
Effects of:		
Expenses not deductible for tax purposes	**776**	-
Capital allowances for period in excess of depreciation	**2,909**	-
Tax losses carried forward	**3,603**	2,609
Adjustments in respect of previous years	**(93)**	-
Total current tax charge (see above)	**(93)**	-

Factors that may affect future tax charges

The company has tax losses available for carry forward against future profits. Due to uncertainty over future profitability no deferred tax asset has been recognised in respect of these losses.

10 Tangible fixed assets - group

	Freehold land and buildings £000	Plant and machinery £000	Assets in course of construction £000	Total £000
Cost				
At 31 August 2002	8,741	19,097	232	28,070
Additions	22	2,092	3,025	5,139
Disposals	-	(856)	-	(856)
Restructuring	(1,436)	(3,160)	(3,105)	(7,701)
At 30 August 2003	**7,327**	**17,173**	**152**	**24,652**
Accumulated depreciation				
At 31 August 2002	213	2,709	-	2,922
Charge for year	411	6,043	-	6,454
At 30 August 2003	**624**	**8,752**	**-**	**9,376**
Net book value				
At 30 August 2003	**6,703**	**8,421**	**152**	**15,276**
At 31 August 2002	8,528	16,388	232	25,148

Land and buildings includes land amounting to £475,000 *(2002: £475,000)*.

Notes *(continued)*

11 Fixed asset investments

	Shares in group undertakings £000
Cost	
At beginning and end of year	164,690
Amounts written off	
At beginning of year	50,063
Written off during the year	23,286
At end of year	**73,349**
Net book value	
At end of year	**91,341**
At beginning of year	114,627

At 31 August 2003 the company owned 100% *(2002: 100%)* of the ordinary shares in Solectron Scotland Limited which is incorporated in Scotland. The principal activity of Solectron Scotland Limited is the assembly of printed circuit boards, including new product introduction.

12 Stocks

	Group 2003 £000	2002 £000
Raw materials and consumables	**26,330**	45,760
Work in progress	**4,046**	3,562
Finished goods	**2,430**	8,797
	32,806	58,119

13 Debtors

	Group 2003 £000	2002 £000	**Company 2003 £000**	2002 £000
Trade debtors	**35,554**	43,150	**-**	-
Amounts owed by parent and fellow subsidiary undertakings	**9,921**	12,025	**1,932**	-
Other debtors	**3,734**	5,319	**-**	-
Corporation tax recoverable	**2,837**	1,995	**-**	-
Prepayments and accrued income	**418**	577	**-**	-
	52,464	63,066	**1,932**	-

Notes *(continued)*

14 Creditors: amounts falling due within one year

	Group 2003 £000	2002 £000	Company 2003 £000	2002 £000
Trade creditors	**15,228**	28,457	**-**	-
Amounts owed to parent and fellow subsidiary undertakings	**51,528**	71,267	**44,999**	42,151
Other taxes and social security	**949**	973	**-**	-
Other creditors	**-**	22	**-**	-
Accruals and deferred income	**3,515**	3,411	**-**	-
	71,220	104,130	**44,999**	42,151

15 Creditors: amounts falling due after more than one year

	Group 2003 £000	2002 £000
Amounts owed to parent and fellow subsidiary undertaking	**1,400**	8,609

16 Provisions for liabilities and charges

	Restructuring £000
Group	
At 31 August 2002	3,930
Utilised during the year	(1,715)
Charged to profit and loss account	426
At 30 August 2003	**2,641**

The subsidiary company has a deferred tax asset due to accelerated capital allowances and other short term timing differences and losses carried forward. This is not recognised as there is uncertainty over future use of this asset.

17 Called up share capital

	2003 £	2002 £
Authorised		
100 Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
2 (*2002:* 2) Ordinary shares of £1 each	**2**	2

Notes *(continued)*

18 Reserves

	Capital contribution £000	Profit and loss account £000
Group		
At 31 August 2002	116,236	(43,760)
Retained loss for the year	-	(24,202)
At 30 August 2003	**116,236**	**(67,962)**

	Capital contribution £000	Profit and loss account £000
Company		
At 31 August 2002	116,236	(43,760)
Retained loss for the year	-	(24,202)
At 30 August 2003	**116,236**	**(67,692)**

19 Reconciliation of movements in shareholders' funds

	2003 £000	2002 £000
Group		
Opening shareholders' funds	**72,476**	43,477
Loss for the financial year	**(24,202)**	(39,332)
Capital contribution received	-	68,331
Closing shareholders' funds	**48,274**	72,476

	2003 £000	2002 £000
Company		
Opening shareholders' funds	**72,476**	43,477
Loss for the financial year	**(24,202)**	(39,332)
Capital contribution received	-	68,331
Closing shareholders' funds	**48,274**	72,476

20 Pensions

The group operates a defined benefits pension scheme and a defined contribution scheme. Contributions amounting to £98,000 *(2002: £104,000)* were payable to the scheme and are included in creditors.

The defined benefits scheme was closed to a new entrants on 1 January 1995.

The defined benefits scheme provides benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of valuations using the attained age method of valuation.

Notes *(continued)*

20 Pensions *(continued)*

The most recent valuation of the scheme was at 1 January 2002. The assumptions which have the most significant effect on the results of the valuation were that investment returns would be 6.5% per annum, salary increases would average 6% per annum and future pensions increase at the rate of 2.75% per annum.

The market value of the scheme's assets was £9,571,000 at 1 January 2002 and this represented 89% of the benefits that had accrued to members at that date, after allowing for expected future increases in earnings.

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs' under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The valuation was updated by the actuary on an FRS 17 basis as at 29 August 2003, 30 August 2002 and 31 August 2001.

The major assumptions used by the actuary in this valuation were:

	2003	2002	2001
Rate of increase in salaries	**N/A**	3.75%	3.75%
Rate of increase in pensions in payment	**2.25%**	2.25%	2.25%
Rate of increase of deferred pensions	**2.50%**	2.50%	2.50%
Discount rate applied to scheme liabilities	**5.50%**	5.75%	5.75%
Inflation assumption	**2.50%**	2.50%	2.50%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Notes *(continued)*

20 Pensions *(continued)*

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return 29 August 2003	**Value at 29 August 2003 £000**	Long term rate of return 30 August 2002	Value at 30 August 2002 £000	Long term rate of return 31 August 2001	Value at 31 August 2001 £000
Equities	**8.5%**	**5,950**	8.5%	6,684	7.5%	7,981
Bonds	**5.0%**	**2,727**	5.0%	1,144	5.3%	1,050
Other	**5.0%**	**88**	5.0%	395	5.0%	566
		8,765		8,223		9,597
Present value of scheme liabilities		**(12,978)**		(12,005)		(11,661)
Deficit in the scheme – Pension liability		**(4,213)**		(3,782)		(2,064)
Related deferred tax asset		**1,264**		1,135		619
Net pension liability		**(2,949)**		(2,647)		(1,445)

The amount of this net pension liability would have a consequential effect on reserves.

Movement in deficit during the year

	2003 £000	2002 £000
Deficit in scheme at beginning of year	**(3,782)**	(2,064)
Current service cost	**-**	(199)
Contributions paid	**287**	160
Other finance (expense)/income	**(37)**	10
Actuarial loss	**(681)**	(1,689)
Deficit in the scheme at the end of year	**(4,213)**	(3,782)

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating loss

	2003 £000	2002 £000
Current service cost	**-**	199

Notes *(continued)*

20 Pensions *(continued)*

Analysis of amounts included in other finance expense/income

	2003 £000	2002 £000
Expected return on pension scheme assets	**647**	684
Interest on pension scheme liabilities	**(684)**	(674)
	(37)	10

Analysis of amount recognised in statement of total recognised gains and losses

	2003 %	**2003 £000**	2002 %	2002 £000
Actual return less expected return on scheme assets		**(162)**		(2,143)
Percentage of year end scheme assets	**(1.8)**		26.1	
Experience gains and losses arising on scheme liabilities		**88**		454
Percentage of present value of year end scheme liabilities	**0.7**		3.8	
Changes in assumptions underlying the present value of scheme liabilities		**(607)**		-
Percentage of present value of year end scheme liabilities	**(4.7)**		-	
Actuarial loss recognised in statement of total recognised gains and losses		**(681)**		(1,689)

21 Commitments - Group

(a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2003 £000	2002 £000
Contracted	**-**	440

(b) Annual commitments under non-cancellable operating leases are as follows:

	2003		2002	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operates leases which expire:				
Within one year	**-**	**533**	-	-
In the second to fifth inclusive	**-**	**-**	225	1,696
	-	**533**	225	1,696

Notes *(continued)*

22 Ultimate parent company

The company is a subsidiary undertaking of Solectron Europe BV which is incorporated in The Netherlands. The ultimate parent company is Solectron Corporation.

The smallest and largest group in which the results of the company are consolidated is that headed by Solectron Corporation which is incorporated in the United States of America. The consolidated accounts of this company are available to the public and may be obtained from Solectron Corporation, 777 Gibraltar Drive, Milpitas, California 95035.