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Aavid Thermalloy UK Holdings Limited and subsidiary undertakings

Annual report and consolidated accounts
for the year ended 31 December 2001

Registered number: 3859614

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Directors' report

For the year ended 31 December 2001

The directors present their annual report on the affairs of the group, together with the consolidated accounts for the year ended to 31 December 2001.

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 profit for the period after taxation was £91,000 (2000: loss of £2,253,000). The directors are unable to recommend a dividend (2000: £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.

Directors and their interests

The directors who served during the period and subsequently were as follows:-

B R Patel
J W Mitchell (appointed 27 July 2002)

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

Subsequent event

In July 2002 Aavid Thermal Technologies Inc entered into a new worldwide refinancing arrangement whereby bank borrowings were guaranteed by various subsidiary undertakings by way of a charge over book debts. At the date of signature of these accounts, the amount subject to charge was $1.4m.

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Directors' report (continued)

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
- 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 enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, 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

Arthur Andersen resigned as auditors on 31 July 2002. Deloitte and Touche were appointed as auditors on 1 August 2002.

By order of the Board

x x

B R Patel
Director

Cheney Manor
Swindon
SN2 2QN

Date: 1|5|03

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Independent auditors' report

To the members' of Aavid Thermalloy UK Holdings Limited

We have audited the financial statements of Aavid Thermalloy UK Holdings Limited for the year ended 31 December 2001 which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet and the related notes 1 to 21.

These financial statements have been prepared under 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 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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 company'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 the group's and company's affairs as at 31 December 2001 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Registered Auditors and Chartered Accountants

Reading

Date: 9 May 2003

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Consolidated profit and loss account

For the year ended 31 December 2001

	Notes	2001 £000	2000 £000
Turnover	2	9,400	17,989
Cost of sales		(6,161)	(13,876)
Gross profit		3,239	4,113
Selling and distribution		(1,203)	(1,906)
Administration		(1,900)	(3,581)
Operating profit (loss)		136	(1,374)
Interest receivable	3	10	19
Interest payable and similar charges	4	(298)	(376)
Loss on ordinary activities before taxation	5	(152)	(1,731)
Tax on loss on ordinary activities	7	243	(522)
Retained profit (loss) for the year	16	91	(2,253)

There were no recognised gains or losses other than the result 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.

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Consolidated balance sheet

31 December 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Goodwill	8	7,283	7,690
Negative goodwill	8	(814)	(859)
		6,469	6,831
Tangible assets	9	974	749
		7,443	7,580
Current assets			
Stocks	11	1,213	1,011
Debtors	12	3,043	5,361
Cash at bank and in hand		723	1,484
		4,979	7,856
Creditors: Amounts falling due within one year	13	(8,317)	(11,338)
Net current liabilities		(3,338)	(3,482)
Total assets less current liabilities		4,105	4,098
Provisions for liabilities and charges	14	(125)	(209)
Net assets		3,980	3,889
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	(2,162)	(2,253)
Shareholders' funds	16	3,980	3,889

	2001 £000	2000 £000
Shareholders' funds may be analysed as:		
Equity interests	3,980	747
Non-equity interests	-	3,142
Shareholders' funds	3,980	3,889

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

The accounts on pages 4 to 17 were approved by the board of directors on 1/5/03 and were signed on its behalf by:

B R Patel

Director

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Company balance sheet

31 December 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Investments	10	13,261	13,261
Creditors: Amounts falling due within one year	13	(8,560)	(8,169)
Net current liabilities		(8,560)	(8,169)
Total assets less current liabilities		4,701	5,092
Net assets		4,701	5,092
Capital and reserves			
Called-up share capital	15	3,142	3,142
Share premium account	16	3,000	3,000
Profit and loss account		(1,441)	(1,050)
Shareholders' funds		4,701	5,092

	2001	2000
Shareholders' funds may be analysed as:		
Equity interests	4,701	1,950
Non-equity interests	-	3,142
Shareholders' funds	4,701	5,092

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

The accounts on pages 4 to 17 were approved by the board of directors on and were signed on its behalf by:

B R Patel
Director

Date: 1|5|03

Notes to consolidated accounts

31 December 2001

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.

b) Basis of consolidation

The group accounts consolidate the accounts of the company and its subsidiary undertakings drawn up to 31 December 2001. 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 £391,000 (2000 - £1,050,000).

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

e) Investments

Fixed asset investments are stated at cost less any provision for impairment.

Notes to the consolidated accounts (continued)

1 Accounting policies (continued)

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 translated into sterling at the exchange rate ruling at the balance sheet date.

i) Turnover

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

j) Product development

Expenditure is charged to the profit and loss account in the period in which it is incurred.

k) Taxation

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.

Deferred taxation is provided using the liability method on all timing differences, which are expected to reverse in the future without being replaced.

l) Pension costs

Until 1 August 2001, the company provided pension arrangements to employees through a defined benefit scheme, operated by Bowthorpe plc, the former parent company. It is not possible to identify the share of assets and liabilities in this scheme which is attributable to the company on a consistent and reasonable basis. Therefore, the company has applied the provisions in Financial Reporting Standard 17 – Retirement Benefits to account for the scheme as if it were a defined contribution scheme.

Details of the most recent actuarial valuation are given in note 19.

From 1 August 2001, contribution to these schemes ceased. Employees now have the option to join a defined contribution group personal pension plan.

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

	2001 £000	2000 £000
Bank interest receivable	10	19

4 Interest payable and similar charges

	2001 £000	2000 £000
Interest on intercompany loan	298	376

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2001 £000	2000 £000
Amortisation of goodwill	362	418
Depreciation and amounts written off owned assets	249	466
Foreign exchange loss	282	396
Operating lease rentals		
- plant and machinery	17	28
- property	79	150
Auditor's remuneration		
- audit services	25	47
- non-audit services	11	13
Exceptional costs of plant closure	210	1,905

The exceptional costs of plant closure of £210,000 (2000 - £1,905,000) related to the costs of consolidating the group's operating locations comprising principally fixed asset write-downs and severance costs.

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6 Staff costs

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

	2001 Number	2000 Number
Distribution and manufacturing	68	135
Selling and administration	12	20
	80	155

Their payroll costs were:	2001 £000	2000 £000
Wages and salaries	1,722	2,507
Social security costs	163	207
Other pension	81	101
	1,966	2,815

Directors' remuneration

The directors received no remuneration from the company or its subsidiary undertakings during the period.

7 Tax charge on loss on ordinary activities

	2001 £000	2000 £000
UK corporation tax at 30% (2000: 30%)	(159)	502
Deferred taxation	(84)	20
	(243)	522

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Notes to consolidated accounts (continued)

8 Goodwill

Group

Positive goodwill	2001 £000	2000 £000
Cost		
At 1 January 2001	8,149	-
Acquisition of subsidiary undertakings	-	8,149
At 31 December 2001	8,149	8,149
Amortisation		
At 1 January 2001	(459)	-
Charge for period	(407)	(459)
At 31 December 2001	(866)	(459)
Net book value		
At 31 December 2000	7,690	-
At 31 December 2001	7,283	7,690

Negative goodwill	2001 £000	2000 £000
Cost		
At 1 January 2001	(900)	-
Acquisition of subsidiary undertakings	-	(900)
At 31 December 2001	(900)	(900)
Amortisation		
At 1 January 2001	41	-
Charge for period	45	41
At 31 December 2001	86	41
Net book value		
At 31 December 2000	(859)	-
At 31 December 2001	(814)	(859)

Notes to consolidated accounts (continued)

9 Tangible fixed assets

Group

	Short leasehold property £000	Fixtures and fittings £000	Plant and Machinery £000	Total £000
Cost				
At 1 January 2001	78	340	482	900
Additions	-	409	73	482
Disposals	-	(120)	(10)	(130)
At 31 December 2001	78	629	545	1,252
Depreciation				
At 1 January 2001	(6)	(71)	(74)	(151)
Charge for the period	(6)	(115)	(128)	(249)
Disposals	-	113	9	122
At 31 December 2001	(12)	(73)	(193)	(278)
Net book value				
At 31 December 2000	72	269	408	749
At 31 December 2001	66	556	352	974

10 Fixed asset investments

	Company 2001 £000	Company 2000 £000
Cost and net book value		
Investments in subsidiary undertakings	13,261	13,261

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.

Name	*Country of registration or incorporation*	*Nature of business*
Aavid Thermalloy Limited	England and Wales	Manufacture of semiconductor heatsink units and accessories
Aavid Thermalloy (UK) Limited	England and Wales	Non-trading
Aavid Thermalloy Intertnational Limited	England and Wales	Non-trading
Redpoint Limited (dissolved 11 June 2002)	England and Wales	Non-trading

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Notes to consolidated accounts (continued)

11 Stocks

	Group 2001 £000	Group 2000 £000
Raw materials	482	556
Work in progress	39	71
Finished goods	692	384
	1,213	1,011

12 Debtors

	Group 2001 £000	Group 2000 £000
Due within one year:		
Trade debtors	1,800	2,356
Owed by group undertakings	1,014	2,963
Prepayments and accrued income	74	42
Corporation tax recoverable	155	-
	3,043	5,361

13 Creditors: amounts falling due within one year

	2001 Group £000	2001 Company £000	2000 Group £000	2000 Company £000
Trade creditors	402	-	1,081	-
Amounts owed to group undertakings	7,447	8,560	9,034	8,169
Corporation tax	-	-	437	-
Other creditors including taxation and social security	34	-	42	-
Accruals and deferred income	434	-	744	-
	8,317	8,560	11,338	8,169

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

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14 Provisions for liabilities and charges

	Group 2001 £000	Group 2000 £000
Deferred taxation	-	84
Property costs	125	125
	125	209

The provision for deferred taxation relates to accelerated capital allowances and was acquired with the company's subsidiary undertakings. There was no subsequent movement in the provision and there were no unrecognised deferred tax assets or liabilities at the period-end. The property costs provision relates to the closure of the group's Corby plant and is expected to be utilised in the next one to two years. The movement during the period was as follows:

	Deferred taxation £000	Property costs £000	Total £000
At 1 January 2001	84	125	209
Released to the profit and loss account	(84)	-	(84)
At 31 December 2001	-	125	125

15 Called-up share capital

	2001 £000	2000 £000
Authorised		
7,520,300 (2000 – 300) ordinary shares of £1 each	7,520	-
Nil (2000 – 7,520,000) cumulative redeemable preference shares of £1 each	-	7,520
	7,520	7,520
Called-up, allotted and fully paid		
3,141,990 (2000 – 300) ordinary shares of £1 each	3,142	-
Nil (2000 – 3,141,690) cumulative redeemable preference shares of £1 each	-	3,142
	3,142	3,142

The company's cumulative redeemable preference shares were converted into 'B' ordinary shares with no preferential dividend rights by agreement with the holder of the shares during the year. The cumulative redeemable preference shares previously carried the right to a fixed cash cumulative dividend at rate of 10% per annum on the paid up amount. The holder of the shares irrevocably waived its right to the dividend for all periods up to the date on which the preference shares were converted into ordinary shares.

Subsequent to the year end, the ordinary shares were converted into 'A' ordinary shares.

Notes to consolidated accounts (continued)

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

	Share capital £000	Share Premium Account £000	Profit and loss account £000	Total £000
At 12 October 1999	-	-	-	-
Share issued in the period	3,142	3,000	-	6,142
Loss for the period	-	-	(2,253)	(2,253)
At 31 December 2000	3,142	3,000	(2,253)	3,889
Profit for the period	-	-	91	91
At 31 December 2001	3,142	3,000	(2,162)	3,980

As permitted by section 228 of the Companies Act 1985 no profit and loss account has been presented for the company. The company's loss for the period, determined in accordance with the Act, was £391,000 (2000- £1,050,000).

17 Capital commitments

There were no capital commitments at the end of the period.

18 Operating lease commitments

The group has commitments under the following operating leases.

	2001 £000	2000 £000
Annual commitments in respect of property which expire:		
Between two and five years	51	51
After five years	54	52
	105	103

	2001 £000	2000 £000
Annual commitments in respect of plant and machinery:		
Within one year	-	2
Between two and five years	-	25
After five years	-	117
	-	144

19 Pension arrangements

The former parent company, Bowthorpe plc, operates two pension plans to which the company contributed during the year: the Staff Pension Plan which is on a defined benefit basis and the Retirement Cash Plan which is on a defined contribution basis with a defined benefit underpin.

Disclosures under SSAP 24

Pension costs and the assets and liabilities of these plans are reviewed regularly by an independent professionally qualified actuary. The latest actuarial valuations of the plans were undertaken as at 1 April 2000 using the projected unit method and the principal results and assumptions were as follows:

Assumption	Staff Pension Plan	Retirement Cash Plan
Return on investments	7.1% pa	4.8% pa
Salary inflation average	4.3% pa	4.3% pa
Price inflation	2.8% pa	2.8% pa
Pension increases	3.6% pa	3.6% pa
Market value of assets	£109.9 million	£8.5 million
Level of funding	106%	113%
Employer contribution rate	11%	4%

The level of funding represents the market value of assets expressed as a percentage of the value of liabilities on an ongoing basis.

Disclosures under FRS17

The only significant defined benefit plans under FRS 17 are in the United Kingdom and comprise the Staff Pension Plan and Retirement Cash Plan as described above. These plans have been combined for the purposes of the following disclosures.

The most recent actuarial valuation at 1 April 2000 has been used and updated by independent actuaries.

The financial assumptions used to calculate the scheme liabilities under FRS 17 were:

	2001 UK defined benefit plans %
Valuation method	Projected unit
Inflation	2.5
Rate of increase in salaries	4.0
Rate of increase for pensions in payment pre 2001 service	3.5
Rate of increase for pensions in payment post 2001 service	2.5
Rate of increase in deferred pensions	2.5
Rate used to discount scheme liabilities	6.0

Notes to consolidated accounts (continued)

19 Pension arrangements (continued)

The assets and the liabilities in the schemes at 31 December 2001 were as follows:

	Long term rate of return expected %	2001 £million
Equities	7.5	76.2
Gilts	5.0	12.1
Bonds	6.0	1.3
Cash	3.5	4.7
Property	6.0	3.8
Other	6.5	7.3
Total market value of assets		105.4
Actuarial value of liability		(123.3)
Net deficit in the schemes		(17.9)
Related deferred tax asset		5.4
Deficit in the schemes, net of tax		(12.5)
Actuarial value of unfounded pension liability		(4.5)
Related deferred tax asset		1.4
Net pension liability		(15.6)

Contributions to the above schemes by and on behalf of the company's employees ceased with effect from 1 August 2001. Employees now have the option to join the Aavid Thermal Products Group Personal Pension Plan.

The total pension charge during the year was £81,000 (2000: £101,000).

20 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. The consolidated financial statements of Aavid Thermal Technologies Inc. are available from One Eagle Square, Suite 509, Concord, New Hampshire 03301, USA.

21 Subsequent event

In July 2002 Aavid Thermal Technologies Inc entered into a new worldwide refinancing arrangement whereby bank borrowings were guaranteed by various subsidiary undertakings by way of a charge over book debts. At the date of signature of these accounts, the amount subject to charge was $1.4m.