

Apple Computer UK Limited

Registered No. 1591116

DIRECTORS

M Landi
J Molyneux
G Guyon de Chemilly
J Gesmar-Larsen

SECRETARY

P Schön

AUDITORS

Ernst & Young
400 Capability Green
Luton
Bedfordshire LU1 3LU

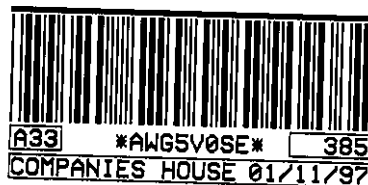
SOLICITORS

Baker and McKenzie
100 New Bridge Street
London EC4V 6JA

REGISTERED OFFICE

Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

ERNST & YOUNG



Apple Computer UK Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 27 September 1996.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £1,235,798 (1995 – profit of £3,122,587).

The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activities during the year were the provision of services to support the distribution of Apple Computer products in the United Kingdom and the performance of service work for Apple Computer products.

The directors consider the results for the year to be satisfactory.

The directors do not envisage any change in the activities of the company in the foreseeable future.

There have been no events since the balance sheet which materially affect the position of the company.

SUPPLIER PAYMENT POLICY

The company's policy is to agree terms and conditions with suppliers in advance, including terms of payment, and to abide by the payment terms subject to the terms and conditions being met by the supplier.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the share capital of the company were as follows:

		<i>Ordinary shares of £1 each</i>	
		<i>27 September</i>	<i>29 September</i>
		<i>1996</i>	<i>1995</i>
R E O'Leary	(resigned 28 March 1996)	—	—
M Newton	(resigned 11 April 1996)	—	—
E B Stead	(resigned 17 September 1996)	—	—
M Landi	(appointed 29 December 1995)	—	—
J Molyneux	(appointed 1 July 1996)	—	—
G Guyon de Chemilly	(appointed 1 July 1996)	—	—
J Gesmar-Larsen	(appointed 1 July 1996)	—	—
J Floisand	(appointed 1 July 1996, resigned 4 February 1997)	—	—

AUDITORS

Ernst & Young will not be seeking reappointment as auditors. A resolution proposing the appointment of KPMG will be put to the members at the Annual General Meeting.

By order of the board



Secretary

17 October 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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 of the profit or loss of the company 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 company 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Apple Computer UK Limited

We have audited the accounts on pages 5 to 16, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

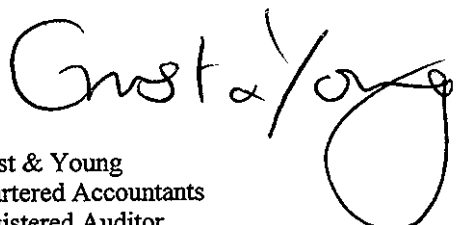
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 27 September 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Chartered Accountants
Registered Auditor
Luton

17 October 1997

Apple Computer UK Limited

PROFIT AND LOSS ACCOUNT for the year ended 27 September 1996

	Notes	1996 £	1995 £
TURNOVER	2	31,251,629	47,751,834
Cost of sales		3,220,996	4,907,715
Gross profit		28,030,633	42,844,119
Distribution costs		951,747	2,762,309
Administrative expenses		28,667,154	28,429,848
		29,618,901	31,192,157
OPERATING (LOSS)/PROFIT	3	(1,588,268)	11,651,962
Provision for loss on disposal of fixed assets	6	—	(6,181,214)
Amounts written back on fixed asset investments	6	—	1,500,000
Interest receivable	7	352,470	394,494
		352,470	(4,286,720)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,235,798)	7,365,242
Tax on (loss)/profit on ordinary activities	8	—	4,242,655
(Loss)/profit retained for the financial year		<u>(1,235,798)</u>	<u>3,122,587</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

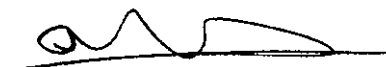
There are no recognised gains and losses other than the loss for the year of £1,235,798 (1995 – profit of £3,122,587).

Apple Computer UK Limited

BALANCE SHEET at 27 September 1996

	Notes	1996 £	1995 £
FIXED ASSETS			
Tangible assets	9	24,601,178	26,097,217
Investments	10	4,000,377	1,500,000
		<u>28,601,555</u>	<u>27,597,217</u>
CURRENT ASSETS			
Inventory	11	—	291,113
Debtors	12	153,133,796	67,146,748
Cash at bank and in hand	13	134,209	84,738
		<u>153,268,005</u>	<u>67,522,599</u>
CREDITORS: amounts falling due within one year	14	127,321,656	39,176,767
		<u>25,946,349</u>	<u>28,345,832</u>
NET CURRENT ASSETS		<u>54,547,904</u>	<u>55,943,049</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>27,087,327</u>	<u>28,323,125</u>
CREDITORS: amounts falling due after more than one year (including convertible debt)	15	26,122,577	26,122,577
PROVISION FOR LIABILITIES AND CHARGES	16	1,338,000	1,497,347
		<u>27,460,577</u>	<u>27,619,924</u>
		<u>27,087,327</u>	<u>28,323,125</u>
CAPITAL AND RESERVES			
Share capital	18	1,000,000	1,000,000
Profit and loss account	19	26,087,327	27,323,125
		<u>27,087,327</u>	<u>28,323,125</u>

Approved by the board on



Director

17 October 1997

Apple Computer UK Limited

STATEMENT OF CASH FLOWS for the year ended 27 September 1996

	Notes	1996 £	1995 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	3(b)	6,397,927	9,160,190
RETURNS ON INVESTMENTS AND SERVICING OF FINANCING			
Interest paid		(4,652)	(296)
Interest received		357,122	394,790
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		352,470	394,494
TAXATION			
Corporation tax		(3,951,325)	(5,667,269)
TAX PAID		(3,951,325)	(5,667,269)
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(275,704)	(859,091)
Proceeds from sale of tangible fixed assets		26,480	2,927
Payments to acquire investments		(2,500,377)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(2,749,601)	(856,164)
NET CASH INFLOW BEFORE FINANCING		49,471	3,031,251
FINANCING			
Increase in loan repayable	13	-	-
NET CASH INFLOW FROM FINANCING		-	-
INCREASE IN CASH AND CASH EQUIVALENTS	13	49,471	3,031,251
		49,471	3,031,251

NOTES TO THE ACCOUNTS
at 27 September 1996

1. ACCOUNTING POLICIES

Accounting convention

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

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Office equipment	-	33% straight line
Building - shell and core	-	straight line over 30 years
Building - fit out	-	straight line over 10 years
Apple own use	-	33% straight line

Inventory

Inventory is stated at the lower of cost, on a first-in, first-out basis, and net realisable value.

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable.

Foreign currencies

Transactions in foreign currencies are translated at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Operating leases

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

2. TURNOVER

Turnover represents the invoiced amount of goods sold and services provided all of which are continuing (net of value added tax), together with commissions received and receivable.

The directors have elected not to disclose the analysis of turnover and profit before taxation by class of business and geographical market, on the grounds that it would be prejudicial to the interests of the company to do so.

Apple Computer UK Limited

NOTES TO THE ACCOUNTS

at 27 September 1996

3. OPERATING (LOSS)/PROFIT

(a) This is stated after charging/(crediting):

	1996 £	1995 £
Directors' remuneration	457,133	214,343
Auditors' remuneration – audit	39,200	37,700
– non audit services	37,841	44,087
Depreciation (note 9)	1,493,273	2,372,653
Depreciation offset against provision	–	(285,314)
Loss on disposal of fixed assets	251,990	99,007
Operating lease/rental:		
Plant and machinery	696,264	710,278
Land and buildings	965,638	1,058,511

(b) Reconciliation of operating (loss)/profit to net cash inflow from operating activities:

	1996 £	1995 £
Operating (loss)/profit	(1,588,268)	11,651,962
Depreciation	1,493,273	2,087,339
Loss on disposal of fixed assets	251,990	99,007
Decrease in inventory	291,113	288,336
Increase in debtors	(85,987,048)	(28,457,057)
Increase in creditors	92,096,214	23,509,013
Provision for costs of sale of empty property utilised	(159,347)	(18,410)
Net cash inflow from operating activities	6,397,927	9,160,190

4. DIRECTORS' EMOLUMENTS

	1996 £	1995 £
Emoluments (including pension contributions)	147,928	214,343
Compensation for loss of office	309,205	–
	457,133	214,343

The emoluments of the highest paid director, excluding pension contributions, were £129,119 (1995 – £201,063). Other directors' emoluments, excluding pension contributions fell within the following range:

	1996 No.	1995 No.
£nil – £5,000	7	2
£25,001 – £30,000	1	–

Apple Computer UK Limited

NOTES TO THE ACCOUNTS at 27 September 1996

5. STAFF COSTS

	1996 £	1995 £
Wages and salaries	6,846,160	5,623,084
Social security costs	584,700	681,376
Other pension costs	289,443	290,733
	<u>7,720,303</u>	<u>6,595,193</u>

The average weekly number of employees during the year was made up as follows:

	1996 No.	1995 No.
Sales and marketing	55	75
Distribution and administration	54	54
	<u>109</u>	<u>129</u>

6. EXCEPTIONAL ITEMS

	1996 £	1995 £
Provision for loss on disposal of fixed assets	—	6,181,214
Amounts written back on fixed asset investments	—	(1,500,000)
	<u>—</u>	<u>4,681,214</u>
Taxation	—	—
	<u>—</u>	<u>4,681,214</u>

7. INTEREST RECEIVABLE

	1996 £	1995 £
Bank interest receivable	357,122	394,790
Bank interest payable	(4,652)	(296)
	<u>352,470</u>	<u>394,494</u>

Apple Computer UK Limited

NOTES TO THE ACCOUNTS

at 27 September 1996

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1996 £	1995 £
Corporation tax:		
Based on the profit for the year:		
Current taxation at 33%	—	4,227,650
Underprovision in previous years	—	15,005
	<u>—</u>	<u>4,242,655</u>

If full provision had been made for deferred taxation for the year, the taxation charge would have been decreased by £228,753 (1995 – £204,137).

	1996 £	1995 £
Capital allowances in advance of depreciation	256,774	205,573
Other differences in recognising revenue and expense items in other periods for tax purposes	(28,021)	(1,436)
	<u>228,753</u>	<u>204,137</u>

9. TANGIBLE FIXED ASSETS

	Land (long leasehold) £	Buildings £	Leasehold improvement £	Office equipment £	Apple own use £	Total £
Cost:						
At 29 September 1995	17,519,492	16,092,147	380,914	6,153,206	1,517,795	41,663,554
Additions	3,000	4,242	—	17,324	251,139	275,705
Disposals	—	—	—	—	(816,731)	(816,731)
At 27 September 1996	<u>17,522,492</u>	<u>16,096,389</u>	<u>380,914</u>	<u>6,170,530</u>	<u>952,203</u>	<u>41,122,528</u>
Depreciation:						
At 29 September 1995	—	9,199,733	380,914	5,261,328	724,362	15,566,337
Additions	—	457,839	—	708,218	327,216	1,493,273
Disposals	—	—	—	—	(538,260)	(538,260)
At 27 September 1996	<u>—</u>	<u>9,657,572</u>	<u>380,914</u>	<u>5,969,546</u>	<u>513,318</u>	<u>16,521,350</u>
Net book value:						
At 27 September 1996	<u>17,522,492</u>	<u>6,438,817</u>	<u>—</u>	<u>200,984</u>	<u>438,885</u>	<u>24,601,178</u>
At 29 September 1995	<u>17,519,492</u>	<u>6,892,414</u>	<u>—</u>	<u>891,878</u>	<u>793,433</u>	<u>26,097,217</u>

Apple Computer UK Limited

NOTES TO THE ACCOUNTS

at 27 September 1996

10. INVESTMENTS

	<i>Participating interest (unlisted) £</i>
Cost:	
At 29 September 1995	1,500,000
Additions	2,500,377
At 27 September 1996	4,000,377
Net book value:	
At 27 September 1996	4,000,377
At 29 September 1995	1,500,000

Details of the investments in which the company holds more than 10% of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Country of registration</i>	<i>Holding</i>	<i>Proportion of shares held</i>	<i>Nature of business</i>
Advanced RISC Machines Holdings Limited	England and Wales	Ordinary shares Preference shares	39% 43%	RISC based microprocessors
Xemplar Education Limited	England and Wales	Ordinary shares	50%	Computer equipment

Apple Computer UK Limited does not prepare consolidated accounts, therefore the following supplementary information has been prepared to incorporate the results of Advanced RISC Machines Holdings Limited as at 31 December 1995, as an associated undertaking of Apple Computer UK Limited.

Supplementary profit and loss account:

	<i>1996 £</i>	<i>1995 £</i>
Share of profit of associated undertaking	1,290,510	1,187,890
Less tax	(352,170)	(251,861)
Share of profits of associated undertaking	938,340	936,029
(Loss)/profit on ordinary activities after taxation	(1,235,798)	3,122,587
Net (loss)/profit retained	(297,458)	4,058,616

Apple Computer UK Limited

NOTES TO THE ACCOUNTS at 27 September 1996

10. INVESTMENTS (continued) Supplementary balance sheet:

	1996 £	1995 £
Fixed assets		
Tangible assets	24,601,178	26,097,217
Investments (interests in associated undertakings)	5,359,467	1,912,911
	<u>29,960,645</u>	<u>28,010,128</u>
Current assets	153,268,005	67,522,599
Creditors: amounts falling due within one year	127,321,656	39,176,767
Net current assets	<u>25,946,349</u>	<u>28,345,832</u>
Total assets less current liabilities	55,906,994	56,355,960
Creditors: amounts falling due after more than one year	26,122,577	26,122,577
Provision for liabilities and charges	1,338,000	1,497,347
	<u>28,446,417</u>	<u>28,736,036</u>
Capital and reserves:		
Called up share capital	1,000,000	1,000,000
Profit and loss account	27,446,417	27,736,036
	<u>28,446,417</u>	<u>28,736,036</u>

11. INVENTORY

	1996 £	1995 £
Goods for resale	—	291,113

12. DEBTORS

	1996 £	1995 £
Trade debtors	—	95,458
Amounts owed by group undertakings	151,404,868	66,561,830
Prepayments	1,728,928	489,460
	<u>153,133,796</u>	<u>67,146,748</u>

13. CASH AND CASH EQUIVALENTS

(a) Analysis of changes in cash and cash equivalents during the year:

	1996 £	1995 £
Balance at 29 September 1995	84,738	(2,946,513)
Net cash inflow	49,471	3,031,251
Balance at 27 September 1996	<u>134,209</u>	<u>84,738</u>

Apple Computer UK Limited

NOTES TO THE ACCOUNTS

at 27 September 1996

13. CASH AND CASH EQUIVALENTS (continued)

(b) Analysis of changes in financing during the year:

	1996 £	1995 £
Loan due to group undertaking	26,122,577	26,122,577

14. CREDITORS: amounts falling due within one year

	1996 £	1995 £
Trade creditors	814,893	1,841,894
Amounts owed to group undertakings	123,539,664	29,040,356
Taxes and social security costs	271,139	591,561
Accruals	2,500,906	3,556,577
Corporation tax	195,054	4,146,379
	127,321,656	39,176,767

15. CREDITORS: amounts falling due after more than one year

	1996 £	1995 £
Loan from group undertaking at 0% wholly repayable on 7 September 2040	15,122,577	15,122,577
Loan from group undertaking at 0% wholly repayable on 6 December 2038	11,000,000	11,000,000
	26,122,577	26,122,577

Both loans are convertible at the option of the issuer to Apple Computer UK Limited Ordinary shares based on the market value of the shares at the date of conversion. Repayment of the loans on the dates above is contingent on the ability of Apple Computer UK Limited to make such repayments from accumulated post-tax profits. In addition, repayment of the loans will not be made unless Apple Computer UK Limited has sufficient funds to make full repayment to all other creditors of the company.

16. PROVISION FOR LIABILITIES AND CHARGES

	<i>Provision for disposal of empty property</i> £
At 29 September 1995	1,497,347
Utilised in year	(159,347)
At 27 September 1996	1,338,000

NOTES TO THE ACCOUNTS
at 27 September 1996

17. DEFERRED TAXATION

	<i>Potential</i>		<i>Provision</i>	
	1996	1995	1996	1995
	£	£	£	£
Capital allowances in advance of depreciation	(651,222)	(394,448)	—	—
Other differences in recognising revenue and expense items in other periods for tax purposes	—	(28,021)	—	—
	<u>(651,222)</u>	<u>(422,469)</u>	<u>—</u>	<u>—</u>

18. SHARE CAPITAL

	<i>Authorised, allotted, called up and fully paid</i>	
	1996	1995
	£	£
1,000,000 Ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>

19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total share- holders' funds</i>
	£	£	£
At 30 September 1994	1,000,000	24,200,538	25,200,538
Profit for the year	—	3,122,587	3,122,587
At 29 September 1995	<u>1,000,000</u>	<u>27,323,125</u>	<u>28,323,125</u>
Loss for the year	—	(1,235,798)	(1,235,798)
At 27 September 1996	<u>1,000,000</u>	<u>26,087,327</u>	<u>27,087,327</u>

20. CAPITAL COMMITMENTS

There were no capital commitments at 27 September 1996 (1995 – £nil).

21. PENSION COMMITMENTS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund.

Apple Computer UK Limited

NOTES TO THE ACCOUNTS

at 27 September 1996

22. OTHER FINANCIAL COMMITMENTS

At 27 September 1996, the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Building</i>	<i>Other</i>	<i>Building</i>	<i>Other</i>
	<i>1996</i>	<i>1996</i>	<i>1995</i>	<i>1995</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Operating leases expiring:				
within one year	–	118,775	–	133,068
two to five years	–	1,043,143	–	252,825
	<u>–</u>	<u>1,161,918</u>	<u>–</u>	<u>385,893</u>

22. ULTIMATE PARENT UNDERTAKING

Apple Computer Inc., incorporated in the United States of America, is the ultimate parent undertaking and is both the smallest and largest undertaking into which the results of Apple Computer UK Limited are consolidated.

Copies of Apple Computer Inc. accounts may be obtained from:

20525 Mariani Avenue
Cupertino
CA 95014 USA