Apple Computer UK Limited

Directors' report and financial statements

25 September 1998
Registered number 1591116

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 25 September 1998.

Results and dividends

The profit for the year, after taxation, amounted to £17,856,000 (1997 - loss of £60,000).

This profit is stated after realising a gain on the disposal of the company's shareholding in Advanced RISC Machines Holdings Limited of £14,790,000.

The directors do not recommend the payment of a dividend.

Principal activities

The company's principal activity is to act as a service provider.

Review of business

The directors consider the results for the year to be satisfactory. Earlier agreements with Apple Computer BV in respect of the years 1996 and 1997 in which it was agreed that commissions would be waived owing to the substantial losses, also provided for a 1% profit on revenue for those years when the Apple Group returned to profitability. This payment was received in 1998.

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:

N Heinen (appointed 29 May 1998)
J Molyneux
G Guyon de Chemilly
G Wipfler (appointed 29 May 1998)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

Year 2000

The company is well advanced in working to ensure that its products and services are Year 2000 compliant. A detailed risk assessment and remediation programme has been put in place to ensure the effective functioning of all internal systems and operations. The company is also working closely with third -party suppliers to assess their Year 2000 compliance and thus further reduce Apple's vulnerability to risks associated with Year 2000. Apple also maintains a Year 2000 web site to keep its customers informed on progress towards full Year 2000 compliance for each Apple product.

Directors' report *(continued)*

Auditors

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

By order of the board

P Schön
Secretary

100 New Bridge Street
London
EC4V 6JA

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 of the profit or loss for that period. 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 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 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 company and to prevent and detect fraud and other irregularities.

KPMG

Arlington Business Park
Theale
Reading, RG7 4SD
United Kingdom

Report of the auditors to the members of Apple Computer UK Limited

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 company's affairs as at 25 September 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG   2 February 1999

KPMG
Chartered Accountants
Registered Auditors

Profit and loss account

for the year ended 25 September 1998

	Note	1998 £000	1997 £000
Turnover	*2*	**19,106**	18,174
Cost of sales		**(875)**	(325)
Gross profit		**18,231**	17,849
Distribution costs		**(571)**	(162)
Administrative expenses		**(13,790)**	(17,525)
Operating profit/(loss)	*3*	**3,870**	162
Profit on disposal of tangible fixed assets		**3,331**	-
Profit on disposal of fixed asset investment		**14,790**	-
Income from participating interests		**374**	-
Other interest receivable and similar income	*6*	**1,798**	316
Interest payable and similar charges	*7*	**(12)**	(3)
Profit on ordinary activities before taxation		**24,151**	475
Tax on profit/(loss) on ordinary activities	*8*	**(6,295)**	(535)
Profit/(loss) retained for the financial year and profit/(loss) after taxation		**17,856**	(60)

There are no recognised gains and losses other than the profit for the year of £17,856,000 (1997 - loss of £60,000).

Balance sheet
at 25 September 1998

	Note	1998		1997	
		£000	£000	£000	£000
Fixed assets					
Tangible asset	9		738		24,018
Investments	10		3,716		4,000
			4,454		28,018
Current assets					
Debtors	11	48,619		28,318	
Cash at bank and in hand		586		238	
		49,205		28,556	
Creditors: amounts falling due within one year	12	(8,776)		(3,425)	
Net current assets			40,429		25,131
Total assets less current liabilities			44,883		53,149
Creditors: amounts falling due after more than one year (including convertible debt)	13		-		(26,122)
Net assets			44,883		27,027
Capital and reserves					
Share capital	15		1,000		1,000
Profit and loss account	16		43,883		26,027
Shareholders' funds	16		44,883		27,027

These financial statements were approved by the board of directors on 28/1/99 and were signed on its behalf by:

Jon Molyneux
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 company's financial statements.

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 the company is a wholly owned subsidiary of Apple Computer Inc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Apple Computer Inc, within which this company is included, can be contained from the address given in note 20.

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
Leasehold improvements	-	period of lease
Apple own use	-	33% straight line

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 money purchase 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 the profit and loss account on a straight line basis over the lease term.

Notes *(continued)*

2 Turnover

Turnover represents the amounts derived from the provision of services during the year, all of which are continuing (net of value added tax).

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.

3 Operating profit/(loss)

This is stated after charging/(crediting):

	1998	1997
	£000	£000
Auditors' remuneration		
- audit	**39**	24
- non audit services	**67**	11
Depreciation	**469**	984
Loss on disposal of fixed assets	**17**	21
Operating lease/rental:		
- plant and machinery	**283**	591
- land and buildings	**952**	-

4 Directors' emoluments

	1998	1997
	£000	£000
Emoluments (including pension contributions)	**146**	138

Retirement benefits are accruing to the following number of directors under:

	Number of directors	
	1998	1997
Money purchase scheme	**1**	1

Notes *(continued)*

5 Staff costs

	1998 £000	1997 £000
Wages and salaries	7,616	8,319
Social security costs	681	719
Other pension costs	278	324
	8,575	9,362

The average weekly number of employees during the year was 120 (1997: 130).

6 Interest receivable and similar income

	1998 £000	1997 £000
Bank interest receivable	62	171
Interest from group undertakings	1,592	-
Net exchange gains	144	145
	1,798	316

7 Interest payable and similar charges

	1998 £000	1997 £000
Bank interest payable	-	3
Exchange losses	12	-
	12	3

Notes *(continued)*

8 Tax on profit on ordinary activities

	1998	1997
	£000	£000
Corporation tax at 31%	**6,220**	-
Tax attributable to franked investment income	**75**	-
Under provision in previous years	-	535
	6,295	535

The tax charge attributable to the profit on disposal of fixed assets is approximately £4,400,000.

9 Tangible fixed assets

	Land	**Buildings**	**Leasehold improvement**	**Office equipment**	**Apple own use**	**Total**
	£000	£000	£000	£000	£000	£000
Cost:						
At 26 September 1997	17,522	16,342	381	5,979	1,180	41,404
Additions	-	218	-	9	121	348
Transfer	-	(509)	509	-	-	-
Disposals	(17,522)	(16,051)	-	(92)	(86)	(33,751)
At 25 September 1998	-	-	890	5,896	1,215	8,001
Depreciation:						
At 26 September 1997	-	10,284	381	5,927	794	17,386
Charge for year	-	170	56	25	218	469
Disposals	-	(10,454)	-	(92)	(46)	(10,592)
At 25 September 1998	-	-	437	5,860	966	7,263
Net book value:						
At 25 September 1998	-	-	**453**	**36**	**249**	**738**
Net book value:						
At 26 September 1997	17,522	6,058	-	52	386	24,018

During the year the company sold its two properties and immediately entered into an operating lease arrangement, on an arm's length basis, with respect to one of these properties.

Notes *(continued)*

10 Investments

Cost	Participating interests £000	Shares in group undertakings £000	Total investments £000
At 26 September 1997	4,000	-	4,000
Disposal	284	-	(284)
Transfer	(3,716)	3,716	-
At 25 September 1998	**-**	**3,716**	**3,716**

In April 1998 the company disposed of 18.9% of its interest in Advanced RISC Machines Holdings Limited (ARM). Its remaining shares in ARM together with its shares in Xemplar Education Limited were transferred to Apple Computer Inc Limited (a company incorporated and registered in Ireland), in exchange for ordinary shares in that company.

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 and Xemplar Education Limited as at 31 December 1997, as an associated undertaking and joint venture respectively of Apple Computer UK Limited.

	1998 £000	1997 £000
Share of joint venture's turnover	**14,073**	11,027
Share of joint venture's operating profit/(loss)	**20**	(720)
Share of associated undertaking's profit	**1,770**	1,402
Share of joint venture's net interest receivable	**59**	23
Share of associated undertaking's net interest receivable	**182**	30
	2,031	735
Share of associated undertaking's taxation	**(648)**	(395)
	1,383	340
Share of joint venture's gross assets	**4,027**	6,231
Share of joint venture's gross liabilities	**(2,145)**	(4,428)
Net investment in joint venture	**1,882**	1,803
Investment in associated undertaking	**5,200**	3,896
	7,082	5,699

Notes *(continued)*

11 Debtors

	1998 £000	1997 £000
Amounts owed by group undertakings	**47,386**	27,897
Other debtors and prepayments	**1,233**	421
	48,619	28,318

12 Creditors: amounts falling due within one year

	1998 £000	1997 £000
Trade creditors	**620**	558
Amounts owed to group undertakings	-	1,077
Taxes and social security costs	**501**	311
Accruals	**1,207**	1,479
Corporation tax	**6,448**	-
	8,776	3,425

13 Creditors: amounts falling due after more than one year

	1998 £000	1997 £000
Loan from group undertaking at 0% wholly repayable on 7 September 2040	-	15,122
Loan from group undertaking at 0% wholly repayable on 6 December 2038	-	11,000
		26,122

Notes *(continued)*

14 Deferred taxation

The company has an unrecognised deferred tax asset of £460,000 arising from the excess of depreciation over capital allowances.

15 Share capital

	Authorised, allotted, called up and fully paid	
	1998	1997
	£000	£000
1,000,000 ordinary shares of £1 each	**1,000**	1,000

16 Reconciliation of shareholders' funds and movements on reserves

	Share capital	Profit and loss account	Total shareholders' funds
	£000	£000	£000
At 26 September 1997	1,000	26,027	27,027
Profit for the year	-	17,856	17,856
At 25 September 1998	**1,000**	**43,883**	**44,883**

17 Capital commitments

There were no capital commitments at 25 September 1998 (1997 - £nil).

18 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.

Notes *(continued)*

19 Other financial commitments

At 25 September 1998, the company had annual commitments under non-cancellable operating leases as set out below:

	Building 1997 £000	**Other 1997 £000**	Buildings 1996 £000	Other 1996 £000
Operating leases expiring:				
Within one year	**-**	**212**	-	519
Two to five years	**-**	**43**	-	188
More than five years	**1,270**	**-**	-	-
	1,270	**255**	-	707

20 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