CABOT 2 LIMITED
Formerly ELEMENT 14 LIMITED
Formerly ACORN COMPUTERS LIMITED

Financial Statements for the Year Ended 31 December 1998
Together with Directors' and Auditors' Reports
Reg No 1403810

Contents

Corporate Information

Directors	Neville Diffey Rachel Lord Simon Merchant Steve Souchon
Registered Office	25 Cabot Square Canary Wharf London E14 4QA
Registered Number	1403810
Auditors	Arthur Andersen Betjeman House 104 Hills Road Cambridge CB2 1LH

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Change of Name

During the year Acorn Computers Limited changed its name to Element 14 Limited, and then to Cabot 2 Limited.

Principal Activities and Business Review

The Company is engaged in the design, development and licensing of products and technologies for the interactive networked multimedia market (including digital interactive TV and information appliances). The Company is also involved in the sale of products and services for the personal computing and interactive multimedia markets.

A full review of the business can be found in the annual report of Acorn Group plc.

For details of events subsequent to the year end please refer to note 21. As detailed in this note, the company as at the date of signing is a non-trading company.

Results and Dividends

The Company profit for the year after taxation amounted to £4,127,000 (1997: £456,000). No dividend is payable.

Directors and Directors' Interests

The current Directors of the Company are listed on page 1.

The following changes to the Board of Directors have taken place since 1 January 1998

Name	Date Appointed	Date Resigned
Neville Diffey	1 June 1999	-
Rachel Lord	1 June 1999	-
Simon Merchant	1 June 1999	-
Steve Souchon	1 June 1999	-
Stan Boland	-	1 June 1999
Richard Conway	-	1 June 1999
Andrew Greensmith	13 October 1998	1 June 1999
Andrew Mee	13 October 1998	1 June 1999
John Redford	13 October 1998	1 June 1999
Lorraine Buckman	-	12 August 1998
Graham Dodgson	-	12 August 1998
Peter Bondar	-	12 August 1998
David Lee	-	14 December 1998

Disabled Employees

The Company's policy is to give full consideration to applications from disabled persons and to ensure that those recruited receive training, career development and promotion which is similar to that of all other employees.

Special attention would be given to the needs of any employee who became temporarily or permanently disabled whilst in employment.

Directors' Report (Cont)

Employee Involvement

The Directors believe in keeping employees informed on matters relevant to the business, particularly through meetings, notice-boards and the Group internal website. This report and the interim statement are available to all personnel.

Charitable and Political Contributions

During the year the Company made charitable donations of £653 (1997: £2,145). There were no political contributions.

Supplier Payment Policy

The Company's policy is to agree terms of payment with suppliers when negotiating the terms of each transaction, and to abide by such terms. Trade creditors of the Company at 31 December 1998 were equivalent to 40 days purchases (1997: 32 days), based on the average daily amount invoiced by suppliers during the year.

Fixed Assets

In the opinion of the Directors, the current open market value of the Company's interests in land and buildings exceeds the book value by £190,000. The Company's liability to taxation if land and buildings were sold at that value would be approximately £60,000.

Year 2000

As has been widely reported, many computer systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid problems.

A Company-wide programme to address the impact of the year 2000 on our business is underway and actions have been taken to address the key risks in advance of critical dates and without disruption to the underlying business.

Given the complexity of the issue, it is not possible for any organisation to guarantee that no year 2000 problems will remain. However, the Directors are satisfied that the Company will achieve an acceptable state of readiness.

The Euro

The Directors consider that the introduction of the Euro will not significantly affect its financial processes. The commercial implications of the UK introducing the Euro and necessary related actions are being monitored by the Directors on an ongoing basis.

Auditors

Elective Resolutions are to be put in place as at the date of signature of these accounts to dispense with the laying of accounts and reports before a general meeting, the holding of Annual General Meetings and the annual re-appointment of auditors. Arthur Andersen will continue as the Company's auditors until further notice.

By Order of the Board

Director

Date 22/12/99

Director's Responsibilities

Accounts, including adoption of going concern basis

Company law requires the Directors to prepare accounts 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 of the Company for that period.

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

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Other Matters

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and 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.

Auditors' Report

To the Shareholders of Cabot 2 Limited (previously Element 14 Limited) (previously Acorn Computers Limited):

We have audited the financial statements on pages 6 to 23 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 to 11.

Respective Responsibilities of Directors and Auditors

As described on page 4 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 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 circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary 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 at 31 December 1998 and of the Company's profit for the financial year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants
and Registered Auditors
Cambridge

22/12/99

Profit and Loss Account

YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £000	1997 £000
Turnover	1	11,616	24,912
Cost of Sales		(8,696)	(18,316)
Gross Profit	1	2,920	6,596
Distribution costs		(3,238)	(4,496)
Administration expenses		(4,360)	(1,743)
Research and Development		(4,608)	(2,858)
Write back of inter-company loan		574	3,292
Operating (loss)/profit		(8,712)	791
Investment income	2	1,496	–
Profit on disposal of shares	3	14,530	–
Profit on ordinary activities before finance charges		7,314	791
Finance Charges (net)	7	(29)	(547)
Profit on ordinary activities before taxation	8	7,285	244
Tax on profit on ordinary activities	9	(1,900)	212
Profit for the financial year		5,385	456
Dividend paid	10	(1,258)	–
Retained profit for the year		4,127	456

All operations of the Company continued throughout both periods.

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

Statement of Total Recognised Gains and Losses

YEAR ENDED 31 DECEMBER 1998

	1998 £000	1997 £000
Profit for the financial year	4,127	456
Prior year adjustment	–	(2,212)
Total recognised gains/(losses) since last annual report and financial statements	4,127	(1,756)

The accompanying notes are an integral part of this statement of total recognised gains and losses.

Balance Sheet

AT 31 DECEMBER 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Intangible assets	11	249	969
Tangible assets	11	1,094	1,267
Investments	11	6	3,435
		1,349	5,671
Current assets			
Stocks	12	837	775
Debtors	13	3,168	3,894
Investments	11	2,214	–
Cash at bank and in hand		5,365	1,244
		11,584	5,913
Creditors			
Amounts falling due within one year	14	(10,436)	(13,010)
Net current assets/(liabilities)		1,148	(7,097)
Total assets less current liabilities		2,497	(1,426)
Creditors			
Amounts falling due after more than one year	15	–	(204)
Net assets/(liabilities)		2,497	(1,630)
Capital and reserves			
Called-up share capital	16	10	10
Profit and loss account	18	2,487	(1,640)
Equity shareholder's funds-all equity	17	2,497	(1,630)

These financial statements were approved by the Board of Directors on and were signed on its behalf by:

22/12/99

Director

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

Statement of Accounting Policies

AT 31 DECEMBER 1998

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

Basis of Accounting

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

Intangible Fixed Assets

Intangible assets represent software licences purchased.

Software licences are shown at their original cost and depreciated in equal annual instalments over the period covered by the licence. Provision is made for any impairment.

Tangible Fixed Assets

Fixed assets are shown at their original historical cost, net of depreciation and provisions for impairment in value.

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

Leasehold improvements	—	over the length of the lease
Plant and equipment	—	20% to 33% p.a.

Investments

Investments in subsidiary undertakings and associated undertakings are stated at cost less amounts written off. Dividends received and receivable are accounted for in the profit and loss account.

Stocks and Work in Progress

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition on a first-in, first-out basis. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Provision is made for obsolete, slow-moving or defective items where appropriate.

Statement of Accounting Policies (cont)

Long Term Contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

Cumulative costs incurred net of amounts transferred to cost of sales less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

Profit is recognised on long term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain Group companies are reduced wholly or in part by the surrender of losses by fellow Group companies.

The tax benefits arising from Group relief are recognised in the financial statements of the surrendering and recipient companies.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

Turnover

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

Research and Development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the Directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised and amortised over the period during which the Company is expected to benefit.

Pension Costs

The Company operates a money purchase scheme for senior managers, and a defined benefit scheme which is available to the majority of employees. The assets of both schemes are held independently from those of the Company.

Statement of Accounting Policies (cont)

The profit and loss charge for the money purchase scheme is represented by the contributions payable in the year. For the defined benefit scheme, the profit and loss account charge is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost.

The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account so as to spread the pension costs over the estimated average remaining working life of scheme members.

The contributions are determined by an independent qualified actuary based on triennial valuations using the projected unit method.

Foreign Currency

Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at year-end rates of exchange or, where appropriate, at the rates of exchange in related forward exchange contracts. Any gain or loss arising from changes in exchange rates is included in the profit and loss account.

Leases

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

Government Grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Cash Flow Statement

Under the provisions of Financial Reporting Standard No.1 "Cash Flow Statements" (revised), the Company has not prepared a cash flow statement because Acorn Group plc, which is incorporated in Great Britain, has prepared consolidated financial statements which include the financial statements of the Company for the year and which contain a cash flow statement.

Notes to the Financial Statements

1. Segment Information

All the Company's turnover and profit on ordinary activities before taxation derive from the sale of electronic hardware and software and fee income from consultancy and licensing agreements. All the Company's turnover originates in the United Kingdom.

Turnover by class of business	1998 £000	1997 £000
Technology	4,949	8,948
Set Top Boxes	377	503
Workstations	5,654	14,684
Support Services	636	777
	11,616	24,912

Gross Profit	1998 £000	1997 £000
Technology	1,324	2,888
Set Top Boxes	193	235
Workstations	1,379	3,434
Support Services	24	39
	2,920	6,596

Turnover by location of customer	1998 £000	1997 £000
UK	5,309	14,621
Europe	1,681	972
Australasia	203	825
USA	2,215	7,190
Other	2,208	1,304
	11,616	24,912

2. Investment Income

Investment Income represents a dividend received from ARM Holdings plc.

3. Profit on disposal of shares

The profit on disposal of shares of £14,530,000 arose on the sale of 2,838,039 shares in ARM Holdings plc.

Notes to the Financial Statements (cont)

4. Information Regarding Employees

	1998 £000	1997 £000
Staff costs including Directors:		
Wages and salaries	5,259	5,567
Social security costs	395	467
Other pension costs (note 19)	374	451
	6,028	6,485

	1998 Number	1997 Number
Average monthly number of employees:		
Consultancy	92	115
Workstations	15	20
Administration	25	41
	132	176

5. Directors' Remuneration, Interests and Transactions

The remuneration of the Directors was as follows:

Emoluments	Money purchase pension contrib.	Compensation for loss of office	1998 total	1997 total
603	115	359	1077	458

Included in the above emoluments is a payment to a third party, Olivetti Group, for fees of £299K in respect of one of the company directors.

The number of Directors who were members of pension schemes was as follows:

	1998 Number	1997 Number
Money Purchase Schemes	7	5
Defined Benefit Schemes	1	1
	8	6

The above amounts for remuneration include the following in respect of the highest paid director:

	1998 £000	1997 £000
Emoluments	180	137

Notes to the Financial Statements (cont)

6. Directors' Remuneration, Interests and Transactions (cont.)

In addition to his emoluments shown above, David Lee was paid £119,000 by the Group as compensation for loss of office as a director following his resignation on 14 December 1998. In addition to their emoluments shown above, the following Directors were paid compensation for loss of office:

Peter Bondar	£87,000
Lorraine Buckman	£50,500
Graham Dodgson	£102,500

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in Acorn Group plc granted to or held by Directors. Details of the options are as follows:

Name of Director	1 January 1998	Granted in year	31 December 1998	Exercise Price	Period of Option
S Boland	144,404	–	144,404	£1.385	21/11/00 - 20/11/07
R Conway	25,000	–	25,000	£0.85	08/07/97 - 07/07/04
	100,000	–	100,000	£1.92	19/03/99 - 18/03/06
D Lee	200,000	–	200,000	£2.07	12/03/99 - 11/03/06
G Dodgson	129,964	–	129,964	£1.385	21/11/00 - 20/11/07
L Buckman	6,392	–	6,392	£0.85	08/07/97 - 07/07/04
	50,000	–	50,000	£1.92	19/03/99 - 18/03/06
P Bondar	50,000	–	50,000	£0.85	08/07/97 - 07/07/04
	100,000	–	100,000	£1.92	19/03/99 - 18/03/06

The market value of the ordinary shares of Acorn Group plc as at 31 December 1998 was 87p per share. The closing mid-range price ranged from 57p to 205.5p during the year.

Notes to the Financial Statements (cont)

6. Directors' Remuneration, Interests and Transactions (cont.)

In addition, the following Directors received share options in the company during the year:

	1 January 1998	Granted in year	31 December 1998	Exercise Price	Exercise Date
S Boland	–	500,000	500,000	27.78p	01/09/01
	–	250,000	250,000	37.04p	01/09/02
	–	125,000	125,000	46.30p	01/09/03
A Greensmith	–	280,000	280,000	27.78p	01/09/01
	–	140,000	140,000	37.04p	01/09/02
	–	80,000	80,000	46.30p	01/09/03
A Mee	–	280,000	280,000	27.78p	01/09/01
	–	140,000	140,000	37.04p	01/09/02
	–	80,000	80,000	46.30p	01/09/03
J Redford	–	280,000	280,000	27.78p	01/09/01
	–	140,000	140,000	37.04p	01/09/02
	–	80,000	80,000	46.30p	01/09/03
R Conway	–	280,000	280,000	27.78p	01/09/01
	–	140,000	140,000	37.04p	01/09/02
	–	80,000	80,000	46.30p	01/09/03

Directors' interests:

The Directors who held office as 31 December 1998 had the following interests in the shares of Acorn Group plc:

Name of Director	31 December 1998 Number	31 December 1997 Number
J Redford	100	–

7. Finance Charges

	1998 £000 Number	1997 £000 Number
On bank loans and overdrafts	234	614
Bank interest receivable	(205)	(67)
	29	547

Notes to the Financial Statements (cont)

8. Profit on Ordinary Activities Before Taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):	1998 £000	1997 £000
Research and development costs, net of recoveries from third parties	4,608	3,567
Research and development costs capitalised	–	(709)
	4,608	2,858
Exceptional gains		
- write back of inter-company loans	574	3,292
Exceptional charges		
- bad debts	697	1,272
Depreciation and amortisation	818	1,223
Government grants	(49)	(338)
Operating lease rentals	219	291
Auditors' remuneration		
- in respect of audit work	60	60
- in respect of non-audit work	186	245

9. Tax on profit on ordinary activities

	1998 £000	1997 £000
Corporation tax at 30%	1,900	–
Income from surrender of tax losses to associated undertaking	–	500
Adjustment of current taxation in respect of prior years	–	(288)
	1,900	212

10. Dividends paid

During the year the Company's investment in ARM Holdings plc was transferred to Acorn Group plc by way of dividend. As part of this transaction Acorn Group plc agreed to indemnify the Company's tax liability of £1,900,000 from the sale of ARM Holdings plc shares.

Notes to the Financial Statements (cont)

11. Fixed Assets

a) Intangible fixed assets

	Total £000	Software Licences £000	Product Development £000
Cost			
At 1 January 1998	1,563	854	709
Additions	182	182	–
Disposals	(709)	–	(709)
At 31 December 1998	1,036	1,036	–
Depreciation			
At 1 January 1998	594	594	–
Charge for the year	193	193	–
Disposals	–	–	–
At 31 December 1998	787	787	–
Net book value			
At 1 January 1998	969	260	709
At 31 December 1998	249	249	–

b) Tangible fixed assets

	Total £000	Leasehold Improvements £000	Plant and Equipment £000
Cost			
At 1 January 1998	5,475	437	5,038
Additions	453	178	275
Disposals	(1,933)	(4)	(1,929)
At 31 December 1998	3,995	611	3,384
Depreciation			
At 1 January 1998	4,208	131	4,077
Charge for the year	625	110	515
Disposals	(1,932)	(4)	(1,928)
At 31 December 1998	2,901	237	2,664
Net book value			
At 1 January 1998	1,267	306	961
At 31 December 1998	1,094	374	720

Notes to the Financial Statements (cont)

11. Fixed Assets (Cont)

c) Investments

	1998 £000	1997 £000
Cost		
At 1 January	4,052	4,052
Additions	6	–
Sale of investment	(294)	–
Transfer of investment to parent undertaking	(1,258)	–
At 31 December	2,506	4,052
Amounts written off		
At 1 January	617	697
Decrease in provision	(331)	(80)
At 31 December	286	617
Net book value at 31 December	2,220	3,435
Fixed Assets	6	3,435
Current Assets	2,214	–
Total	2,220	3,435

During the year, the investment in ARM Holdings plc was transferred to Acorn Group plc at cost. Also during the year the investment in Xemplar Education Limited was reclassified as a current asset as a result of the disposal that occurred post year end.

Details of the principal investments held at the end of the year are shown below.

	Country of registration & principal country of operation	Principal activity	Holding	%
Xemplar Education Limited	England	Sales of IT products, services and solutions to UK schools	£1 Ord.	50
Element 14 Software Inc.	USA	Sales and marketing	$1 Ord.	100

On 9 April 1998 the Company acquired a 100% shareholding in Acorn Software Inc. (ASI), incorporated in the state of Delaware. ASI subsequently changed its name to Element 14 Software Inc.

12. Stocks

	1998 £000	1997 £000
Components and consumables	71	326

	837	775

Notes to the Financial Statements (cont)

13. Debtors

	1998 £000	1997 £000
Trade debtors	1,927	1,694
Amounts owed by associated undertakings	484	1,431
Other debtors	220	354
VAT	78	267
Prepayments and accrued income	459	148
	3,168	3,894

All amounts fall due within one year.

14. **Creditors:** Amounts Falling Due within One Year

	1998 £000	1997 £000
Unsecured loan	–	7,883
Payments received on account	1,257	162
Trade creditors	1,636	3,330
Amounts owed to group undertakings	6,342	–
Social security and PAYE	100	152
Other creditors	88	358
Accruals and deferred income	1,013	1,125
	10,436	13,010

15. **Creditors:** Amounts Falling Due after more than One Year

	1998 £000	1997 £000
Amounts payable to parent undertaking	–	204

16. Share Capital

	1998 £000	1997 £000
Authorised Ordinary Shares 75,000,000 shares of 0.025p each (1997: 1,100,000 shares of 1p each)	19	11
Allotted, called-up and fully paid 40,000,000 shares of 0.025p each (1997: 1,000,000 shares of 1p each)	10	10

During the year each 1p Ordinary Share was converted to 40 Ordinary Shares of 0.025p each. In addition the authorised share capital was increased by 31,000,000 shares.

Notes to the Financial Statements (cont)

16. Share Capital (cont)

Also during the year, 6,382,500 share options were granted to employees under an unapproved scheme as follows:

Granted	Exercise Price	Exercise Date
3,624,000	27.78p	01/09/01
1,809,000	37.04p	01/09/02
949,500	46.30p	01/09/03

17. Reconciliation of Movements in Shareholder's Funds

	1998 £000	1997 £000
Profit for the financial year	4,127	456
Opening shareholder's deficit	(1,630)	(2,086)
Closing shareholder's funds/(deficit)	2,497	(1,630)

18. Reserves

	Profit and loss account £000
At 1 January 1998	(1,640)
Profit for the year	4,127
At 31 December 1998	2,487

Notes to the Financial Statements (cont)

19. Other Financial Commitments

a) Capital commitments
At the end of the year there were £148,000 of capital commitments contracted but not provided for (1997: nil).

b) Lease commitments - land and buildings
The Company leases certain land and buildings under short-term leases. The net rentals paid on these leases during the year were £397,000 (1997: £351,110). The rents payable are subject to review at various intervals specified in the leases.

In the case of some building leases, the amounts charged have been amended in accordance with SSAP21 to reflect rent-free periods.

The minimum gross annual rentals under these leases are as follows:

Leases which expire:	1998 £000	1997 £000
within 1 year	–	6
within 2 - 5 years	276	276
after 5 years	601	634
	877	916

Included within leases expiring after five years is the Company's former head office. The lease expires on this building in 2018, and rental payments during 1998 will be £441,000. The building has been sub-leased for a period of ten years, at a rental equal to that paid by the Company.

c) Lease commitments - other
The minimum annual rentals under all other operating leases are as follows:

Leases which expire:	1998 £000	1997 £000
within 1 year	36	39
within 2 - 5 years	91	173
	127	212

d) Pension arrangements
The pension charge for the period was £374,000 (1997: £451,000).

The most recent actuarial valuation of the Company's defined benefit scheme, on 1 February 1997, showed that the market value of the scheme's assets was £4,080,000 representing 99.4% of the benefits accruing to members after allowing for future earnings increases. A 2% per annum differential between investment returns and salary increases and a 4.5% increase in future pensions are assumed. The contributions of the Company and employees were 9.5% and 6% respectively.

Notes to the Financial Statements (cont)

20. Related Party Transactions

The Directors regard the following as being related parties of the Company as defined by Financial Reporting Standard No. 8 ("Related Party Disclosures"):

- ARM Holdings plc (associated undertaking of Acorn Group plc)
- Xemplar Education Limited (associated undertaking)
- Olivetti Group

Xemplar Education Limited:

The Company sold £2,302,000 (1997: £7,924,000) of computer hardware and software to Xemplar Education Limited and supplied administrative services to the value of £516,000 (1997: £777,000).

Transactions with Xemplar Education Limited were carried out under preferential terms and conditions.

At the year end, the Company had amounts receivable of £330,000 (1997: £764,000) from Xemplar Education Limited.

ARM Holdings plc:

The Company sold computer hardware and software to Advanced RISC Machines Limited, a wholly owned subsidiary of ARM Holdings plc, to the value of £86,000 (1997: £205,000) and purchased design consulting services to the value of £23,500 (1997: £322,000).

At the year end, the Company had total amounts receivable of £154,000 (1997: £667,000) from ARM Holdings plc.

Olivetti Group:

Amounts owing to Olivetti at 31 December 1998 were £nil (1997: £8,481,000).

Managing Director's remuneration of £298,570 (1997: £161,000) was paid by the Olivetti Group and recharged to the Company Limited in order to preserve pension benefits.

21. Subsequent Events

On 8 January 1999 the Company disposed of its entire holding in Xemplar Education Limited for £3,000,000.

On 1 June 1999 the offer by Morgan Stanley Dean Witter & Co. ("MSDW") through an indirect subsidiary, MSDW Investment Holdings Limited for the entire issued share capital of Acorn Group plc, the Company's immediate parent undertaking, was declared unconditional. From that date MSDW a company incorporated in the United States of America, became the company's ultimate parent undertaking (see note 22 below). As disclosed in the Director's Report, as a result of this transaction, on 1 June 1999 five directors resigned and four new directors were appointed.

On 3 June 1999 the company disposed of certain of it's trade and assets to Pace Micro Technology plc for £208,000. 53 employees of the Company transferred to Pace on that date.

On 10 June 1999 the Company's immediate parent, Acorn Group plc, delisted from the London Stock Exchange.

On 3 August 1999 the Company changed its name to Cabot 2 Limited.

Notes to the Financial Statements (cont)

21. Subsequent Events (Cont)

On 28 July 1999 an MBO entity called New Jam Inc headed by Stan Boland, previous CEO of Acorn Group plc, acquired various other trade and assets for £620,539. This was an arms length transaction. 33 employees of the Company transferred to New Jam Inc.

On 10 June Acorn Group disposed of its investment in the Company to MSDW Investment Holding Limited, a Company incorporated in the Cayman Islands. The Company was disposed of at no gain no loss.

As at the date of signing, the Company is a non-trading subsidiary of MSDW which employs 5 people.

22. Ultimate Parent Company

At the balance sheet date the immediate parent company was Acorn Group plc, a company registered in England, whose principal place of business is 645 Newmarket Road, Cambridge CB5 8PB. Consolidated financial statements are available to the public and may be obtained from this address.

The Company's immediate parent company is now MSDW Investment Holdings Limited, and the ultimate parent company is now Morgan Stanley Dean Witter & Co., copies of its financial statements are available from 25 Cabot Square, Canary Wharf, London, E14 4QA.