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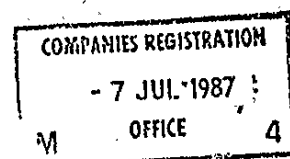
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CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN Bruno Soggiu

MANAGING DIRECTOR D Brian Long

Franco Agostinucci
Hermann M Hauser PhD
Elserino Piol
John W Sutherland CBE
Paolo Tosi
Christopher J Ward

SECRETARY Ian L Tibbs

REGISTERED OFFICE Fulbourn Road, Cherry Hinton, Cambridge CB1 4JN

REGISTRARS AND TRANSFER OFFICE Barclays Bank PLC
Registration Department, Radbroke Hall, Knutsford, Cheshire WA16 9EU

BANKERS Barclays Bank PLC
15 Bene't Street, Cambridge CB2 3PZ

STOCKBROKERS Phillips & Drew
120 Moorgate, London EC2M 6XP

SOLICITORS Freshfields
Grindall House, 25 Newgate Street, London EC1A 7LH

AUDITORS Arthur Andersen & Co
Betjeman House, 104 Hills Road, Cambridge CB2 1LH

FINANCIAL RESULTS

This report, which covers the 12 months ended 31 December 1986, is the first full-year report since the company's accounting period was changed. We have begun to see the positive benefits from the efforts of reorganisation and rationalisation. The results are encouraging.

I am pleased to be able to tell you that our operating profit for the year was £1.4m on turnover of £46.7m. In addition, we have released the foreign exchange reserve resulting in a net profit, after extraordinary items, of £2.1m.

The cash position continues to be effectively controlled. At the year-end bank borrowings were £2.8m, well within available facilities of £16m.

COMPANY STRATEGY

Twelve months ago we unveiled a three-tier strategy for the company. In summary:

- Acorn will maintain its high-technology expertise so that it can operate at the forefront of chosen areas of the information technology industry;
- Acorn will exploit that expertise in clearly defined specialised markets. At present these are the educational and scientific markets and markets closely associated with them;
- Acorn will sell into other markets on an OEM basis, establishing relationships with companies who already have a significant presence in those markets.

This strategy has governed the company's planning and marketing processes. We have created marketing groups for each of these areas and product development is now closely tied to the activities of the marketing groups.

We have sold our holding in IQ (Bio) Limited because its sphere of activity is outside Acorn's area of specialisation. This sale generated a net profit of £254,000 on an

original investment of £155,000. The investment in Torus Systems Limited has been retained but will be reviewed when the progress which that company has already made in sales and product development is reflected in a stronger valuation. Laserdrive Limited continues to make satisfactory progress in the development of optical storage devices and new investors have been found to provide funds for expansion.

EXTERNAL RELATIONS

Relations with other companies in the Olivetti Group continue to develop profitably. Most notable has been the supply to Olivetti of significant volumes of a version of the Compact computer for the Italian home-computer market. Olivetti has also bought products based on Acorn's interactive video and RISC (reduced instruction set computer) technologies.

Acorn is a participant in various national and international projects and initiatives. It has made contributions to the UK Alvey Programme and the European Community Delta, Esprit and Eureka projects. We will continue to participate in such activities, which allow us to exploit the technology base that we possess and which create market opportunities.

BOARD OF DIRECTORS

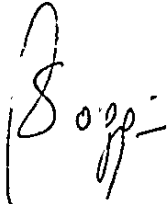
Alessandro Ubaldi de Capei, who joined the board in May 1985 and became chairman in September of that year, has taken up new responsibilities within Olivetti and, as a consequence, felt unable to commit sufficient time to board duties. He therefore resigned as chairman and from the board in January 1987 and I succeeded him as chairman. Alex devoted much effort to the company and contributed extensively to the thinking behind

the company strategy. We wish him well in his new activities. As already reported Christopher Curry resigned from the board during the year. Jim Edwards, who was a member of the board from April 1985, has moved from the computer products division of AT&T and has therefore resigned from the board. We thank them for their contribution.

We welcome two new members to the board: Mr Franco Agostinucci, vice-president for product and market strategy in the Olivetti Group, and Mr Paolo Tosi, managing director of British Olivetti Limited.

PROSPECTS

Current products are selling well and we expect them to continue to provide a solid base to the company's activities. During the year we will be launching the first of our own products incorporating Acorn's 32-bit RISC technology. We expect to achieve volume sales of these products in 1987 and beyond. The technology provides the platform on which an integrated range of machines can be based. Having created this opportunity we now intend to exploit it profitably for your benefit.



Bruno Soggiu
Chairman
30 March 1987

REVIEW OF OPERATIONS

INTRODUCTION

During the year we started to implement our strategy, particularly by building on our current technology, by strengthening our internal procedures and by focussing our research and development activity.

Our sales base has been broadened by the introduction of a new family of microcomputers for our major market, the enhancement of the products we have for the scientific community and the expansion of the range available on an OEM basis. The continuing strength of sales, particularly over the second half, has been the foundation of our return to profitability.

At the same time we have continued to develop our internal procedures so as to ensure an ever closer match between activities and strategy, thereby reducing unnecessary overheads. These procedures have also contributed to our return to profitability.

We have maintained our investment in future products and long-term development. Later this year we will be launching the first product based on our 32-bit RISC technology and thereafter we will build a coherent range of machines intended for our specialised markets. We look to these products for our future profitability.

THE EDUCATION AND SCIENTIFIC MARKETS

On 7 January 1986 we launched the BBC Master series of microcomputers. The Master 128 machine was intended to be the workhorse of the education sector and it has lived up to expectations. We retain our position as market leader in the UK and we are Europe's foremost supplier of educational microcomputers. In addition we are selling in good numbers to computer enthusiasts and home users who want a high-quality product.

The third-party development activity that

surrounded the original BBC model B machine has continued for the new range. The wealth of software support and breadth of peripheral hardware available is unparalleled for a machine intended for this market. The solid base of user experience that now exists for our equipment has itself become a significant selling point.

To illustrate this, at the end of the year we were able to announce that we had won, against strong Japanese competition, a second contract from the Hong Kong government to supply microcomputer systems for use in schools and colleges in the colony. The quality of the product and the extent of supporting activity were major factors in this success.

The Master 128 is enhanced by the use of additional processors such as the 512 and the Turbo. The former, based on an Intel processor, has proved to be an extremely cost-effective means of creating an MS-DOS-type environment; the latter has, for example, allowed machines connected to Acorn's Econet local area network (LAN) to enjoy fast access to centrally held data and software. Econet is by far the most widely installed LAN in UK education. Acorn has supplied more than 10,000 systems and other manufacturers have also been active suppliers.

To support the Econet LAN we developed a stand-alone combined file server and hard disc and introduced this product to the market in January 1987. We also have a Master micro designed specifically for the network, the Master ET (Econet Terminal).

In September we introduced the most cost-effective member of the Master range, the Compact. Designed as an integrated machine it offers the most widely used facilities of the Master series, including a networking capability. Its 3.5" disc format is rapidly becoming the industry-standard storage medium.

November saw the launch of the BBC Domesday System, which has the Master AIV (advanced interactive video) at its heart. The system utilises a video disc filing system containing many hundreds of thousands of images, text pages, data sets and computer programs. The first software is a collection of material marking the 900th anniversary of the publication of the Domesday survey of England. Schools, colleges and libraries are, as expected, buyers of the system. The commercial sector is also showing very strong interest.

For the scientific community the Acorn Cambridge Workstation (ACW) offers a high-level specification at a competitive price. The machine has proved popular in many settings where fast 32-bit desk-top power is required. For those who already have BBC machines, much of the ACW's power can be made available in the form of a co-processor.

We will continue to develop our specialised knowledge of the needs and requirements of the education and scientific communities. Their applications of microtechnology are different from, for example, the office equipment sector and are often more demanding. It is by working with them that we will understand their needs and can then respond with products offering the right facilities at the right price.

THE OEM MARKET

The most visible product in our OEM portfolio has been the Communicator. This is a communications terminal with a built-in modem that can be used on teletext services such as Prestel and teletype systems such as Telecom Gold. It has a sophisticated intelligence capability using a 16-bit processor with 0.5 megabyte of random access memory.

The product was launched at a trade show

in December, when we announced major orders for the equipment from Pickfords Travel Services, who are installing LANs in their retail travel shops, and Thorn-EMI Business Communications, who will sell to areas where they are market leaders.

A development of the Communicator has been produced for use in the pharmaceutical industry and involves packing the machine in a briefcase together with specially developed software and additional peripheral hardware.

Other products that we make available on an OEM basis include sub-systems of our mainline product ranges. Complete processor boards have proved popular with a number of users because of their ease of use and, additionally, special variants have been individually designed to meet specific demands.

The availability of RISC-based products during the coming year opens up many more opportunities for us in this market. We have begun serious discussions with a number of potential customers. We shall pursue these opportunities vigorously.

The interest of the commercial sector in the Domesday System is developing and gaining strength. There is nothing comparable on the market and we are therefore putting some considerable effort into exploiting this interest. We have dealer-agreements with increasing numbers of end-user suppliers specifically for this product. Our first round of activity is concentrated on service industries but our market research indicates potential applications across a wide range of customer groups.

THE FUTURE

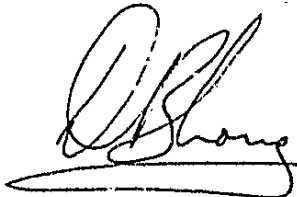
Our new product lines will complement and not replace current products. They will offer a compatibility of environment that is a comfort

REVIEW OF OPERATIONS

to our customers and users. We have begun to show such product interest, purchasers and the level of interest that they have shown confirms our belief that planned volume sales can be achieved in 1987 and beyond.

As an OEM we will explore new areas of opportunity opened up by the technology we have developed. Initial soundings support our view that there are numbers of applications waiting for the power of technology such as ours before they can be implemented. We will strive to exploit each possibility to the full.

The objective of our activity is profitable trading. We have achieved this in 1986; we intend to build on this achievement in 1987.



D B Long
Managing Director
30 March 1987

The directors present their report and the audited financial statements for the year ended 31 December 1986.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW Acorn Computer Group plc is the holding company and management company for an international group of companies engaged in the design, development, marketing and distribution of microcomputers, networking systems, peripheral equipment and associated software.

A review of the business appears in the Chairman's Statement on pages 3 to 4, and in the Review of Operations on pages 5 to 7.

RESULTS AND DIVIDENDS The group profit for the year after taxation and extraordinary items amounted to £2,087,000. No dividend is recommended and the profit will be transferred to reserves.

SHARE CAPITAL At the Annual General Meeting of the company to be held on 30 April 1987 an ordinary resolution will be proposed to authorise the directors, for the purposes of the Companies Act 1985, to allot relevant securities and a special resolution will be proposed to enable the directors to allot equity securities for cash up to a maximum nominal value of £350,000 in addition to shares reserved for issue under the company's share option schemes and shares issued in connection with a rights issue. Specific permission from shareholders at the time of an allotment of shares for cash is no longer required by the Stock Exchange. An ordinary resolution will also be proposed to consolidate the unissued shares of 1p each in the share capital of the company into 10p shares. This will bring the unissued shares into line with the issued shares, which have previously been consolidated into 10p shares.

RESEARCH AND DEVELOPMENT The group maintains a high level of investment in resources dedicated to the design and development of advanced microcomputers, related electronic equipment and proprietary software. In 1986, such investment totalled £4,950,000.

SIGNIFICANT CHANGES IN FIXED ASSETS During the period the group invested £930,000 in fixed assets. Details of changes in fixed assets are shown in Note 11 to the financial statements.

MARKET VALUE OF LAND AND BUILDINGS In the opinion of the directors the difference between the book amount and the market value of land and buildings is not of such significance as to warrant a formal revaluation of these properties.

DIRECTORS AND DIRECTORS' INTERESTS The current directors of the company are shown on page 2. The following changes in the board of directors have taken place during the period from 1 January 1986:

- (a) C J Curry resigned as director on 25 June 1986.
- (b) A Uboldi de Capei resigned as chairman and director on 9 January 1987 and was replaced as chairman by B Soggiu.
- (c) J D Edwards resigned as director on 9 January 1987.
- (d) F Agostinucci and P Tosi were appointed directors on 9 January 1987.

The beneficial interests (as defined by the Companies Act 1985) of the directors at 31 December 1986 in the ordinary shares of 10p of the company were as follows:

	31 December 1986	31 December 1985
H M Hauser	5,022,785	5,250,285
J W Sutherland	2,937	2,937
C J Ward	2,820	2,820

DIRECTORS REPORT

In addition, D B Long has an option to subscribe for 200,000 ordinary shares at a price of 42p per share, exercisable between 6 December 1988 and 6 December 1995.

There were no changes in the share-holdings of the directors to 6 March 1987.

RE-ELECTION OF DIRECTORS F Agostinucci and P Tosi were elected since the date of the last general meeting and are proposed for re-election at the forthcoming Annual General Meeting. J W Sutherland retires by rotation and is proposed for re-election at the forthcoming Annual General Meeting. Neither F Agostinucci nor P Tosi nor J W Sutherland has a service contract.

SUBSTANTIAL INTERESTS At 6 March 1987, the following shareholders had interests of 5% or more in the ordinary share capital of the company:

	%
Olivetti International SA	79.8
H M Hauser	7.6

EMPLOYMENT OF DISABLED PERSONS The group'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.

EMPLOYEE INVOLVEMENT The directors believe in keeping employees involved on matters relevant to the business, particularly through meetings, notice boards and the group newsletter. This report and the interim statement are available to all personnel.

CHARITABLE AND POLITICAL CONTRIBUTIONS No political contributions were made during the year. Donations to charities in the United Kingdom amounted to £3,500.

CLOSE COMPANY STATUS In the opinion of the directors, the company is not a close company within the provisions of the Income and Corporation Taxes Act 1970.

By Order of the Board

I L Tibbs
Secretary
30 March 1987

ACCOUNTING POLICIES

BASIS OF ACCOUNTING The financial statements have been prepared under the historical cost convention.

BASIS OF CONSOLIDATION The group financial statements consolidate the financial statements of the company and all subsidiaries for the year ended 31 December 1986, and incorporate the appropriate proportion of the results of related companies for that period.

FOREIGN EXCHANGE The assets and liabilities of foreign subsidiaries are translated into sterling at the rates of exchange ruling at 31 December 1986. The trading results of foreign subsidiaries are translated into sterling at the average rates of exchange during the year. Exchange differences arising from the translation of the opening balance sheet and the year's trading results of foreign subsidiaries at the year-end rate are taken directly to reserves. All other exchange differences are dealt with in the profit and loss account.

TURNOVER Turnover represents the amounts invoiced for goods and services excluding value added tax, to external customers of the group.

RESEARCH AND DEVELOPMENT Research and development expenditure is written off in the period in which it is incurred.

TANGIBLE FIXED ASSETS Fixed assets are shown at their original historical cost.

Depreciation is provided on a straight line basis from the date of purchase at rates estimated to write off assets over the period of their expected useful lives as follows:

Improvements to leasehold premises	– Over the remaining terms of the leases
Plant and equipment	– 20% to 33% per annum

Motor vehicles	– 25% per annum
Fixtures and fittings	– 20% per annum

FINANCE LEASES Tangible fixed assets acquired under finance leases are capitalised at their fair value at the date of acquisition and are depreciated in the same manner as owned assets. The capital element of future lease payments is included in current and deferred liabilities as appropriate.

INVESTMENTS In the company's accounts, investments are stated at the lower of cost and an estimate of net realisable value. For the purposes of the consolidated financial statements, the profit and loss account includes the group's share of the results of related companies. The group's share of post-acquisition retained profits less losses is added to the cost of investment in the consolidated balance sheet.

RELATED COMPANIES Related companies are defined as being those companies in which the group has an interest of between 20% and 50% of the issued equity capital and over whose affairs the group exercises significant influence.

STOCKS Stocks are stated at the lower of cost and net realisable value. The cost of finished goods comprises component costs, assembly charges and appropriate overheads.

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

Deferred tax is provided on timing differences which are expected to reverse, at the rates of tax likely to be in force at the time of reversal.

CONSOLIDATED PROFIT & LOSS ACCOUNT

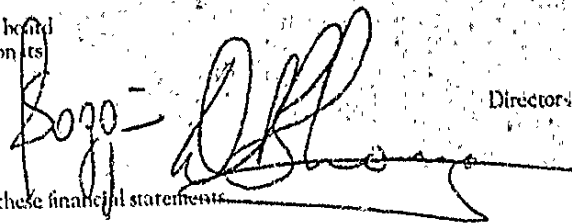
Year ended 31 December 1986	Notes	Year to 31 Dec 1986 £000	6 Months to 31 Dec 1985 £000
Turnover	2	46,663	20,124
Operating profit/(loss)	2-4	1,352	(97)
Exceptional items	6	254	(1,926)
Net interest payable	7	(581)	(921)
Profit/(loss) on ordinary activities before taxation		1,025	(2,944)
Taxation	8		2,294
Profit/(loss) on ordinary activities after taxation		1,025	(650)
Extraordinary items	9	1,062	(1,020)
Retained profit/(loss) for the period		2,087	(1,670)
Earnings/(loss) per ordinary share	10	1.5p	(1.2)p

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS - GROUP & COMPANY

At 31 December 1986	Notes	GROUP		COMPANY	
		1986	1985	1986	1985
		£000	£000	£000	£000
Fixed assets					
Tangible assets	11	2,770	3,726	-	16
Investments	12	1,530	1,056	5,063	4,765
		<u>4,100</u>	<u>4,782</u>	<u>5,063</u>	<u>4,781</u>
Current assets					
Stocks	13	9,199	7,866	-	-
Debtors	14	12,972	8,952	7	3
Cash at bank and in hand		106	407	21	7
		<u>22,277</u>	<u>17,225</u>	<u>28</u>	<u>10</u>
Creditors: amounts falling due within one year	15				
Bank overdraft		2,753	6,948	-	-
Other		13,223	5,865	58	141
		<u>15,976</u>	<u>12,813</u>	<u>58</u>	<u>141</u>
Net current assets/(liabilities)		6,301	4,412	(30)	(131)
Total assets less current liabilities		<u>10,401</u>	<u>9,194</u>	<u>5,933</u>	<u>4,650</u>
Creditors: amounts falling due after more than one year	16	4,468	4,244	-	-
		<u>5,933</u>	<u>4,950</u>	<u>5,933</u>	<u>4,650</u>
Capital and reserves					
Called-up share capital	18	6,639	6,639	6,639	6,639
Share premium account	19	15,800	15,800	15,800	15,800
Other reserves	19	-	1,104	-	-
Profit and loss account	19	(16,506)	(18,595)	(16,506)	(17,789)
		<u>5,933</u>	<u>4,950</u>	<u>5,933</u>	<u>4,650</u>

These financial statements were approved by the board of directors on 30 March 1987, and were signed on its behalf by:

 Directors

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF SOURCE
& APPLICATION OF FUNDS

Year ended 31 December 1986	1986 £000	1985 £000
<i>Source of funds</i>		
Profit/(loss) on ordinary activities before taxation	1,025	(2,944)
Adjusted for items not involving the flow of funds:		
Depreciation	1,338	662
Share of results of related company	25	(30)
(Profit)/loss on disposal of tangible fixed assets	(97)	54
Profit on disposal of trade investment	(254)	-
Exceptional provisions against stock	-	1,926
Funds generated/(absorbed) by operations	2,037	(332)
<i>Other sources of funds</i>		
Proceeds from issue of shares	-	3,657
Realisation of finance leases (net)	-	6,189
Proceeds from disposal of tangible fixed assets	645	86
Proceeds from disposal of trade investment	409	-
Loan stock issued	206	905
Repayment of loan by trade investment	55	-
Finance leases entered into	207	194
Decrease in net current assets, as shown below	1,956	-
	3,478	11,031
Total sources of funds	5,515	10,699
<i>Application of funds</i>		
Finance lease rentals paid	(103)	-
Purchase of tangible fixed assets	(930)	(441)
Purchase of fixed asset investments	(509)	(238)
Taxation paid	(37)	(165)
Repayment of bank loans	-	(6,286)
Extraordinary items (net of reserve movement)	(42)	(449)
Increase in net current assets, as shown below	-	(5,422)
Total application of funds	(1,621)	(13,001)
Net source/(application) of funds	3,894	(2,302)
<i>Decrease/(increase) in net current assets, before write-offs</i>		
Stock	(1,333)	8,168
Debtors	(3,983)	196
Creditors	7,272	(13,786)
	1,956	(5,422)
<i>Movement in net liquid funds</i>		
(Decrease)/increase in cash	(301)	10
Decrease/(increase) in bank overdraft	4,195	(2,312)
	3,894	(2,302)

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING REFERENCE DATE

The company and all subsidiaries within the group altered their accounting reference date to 31 December and this took effect for the six months ended 31 December 1985. Accordingly these accounts are presented for the year ended 31 December 1986. The comparative figures in these financial statements cover the period of six months ended 31 December 1985. Thus all the profit and loss analyses given below, headed '1986' and '1985', cover the year to 31 December 1986 and the six months to 31 December 1985 respectively.

2 ANALYSIS OF GROUP TURNOVER AND OPERATING PROFIT

	Turnover		Operating profit	
	1986 £000	1985 £000	1986 £000	1985 £000
<i>By class of business</i>				
Sale of electronic hardware and software	46,663	19,853	1,352	(180)
Income from finance leases	-	271	-	83
	<u>46,663</u>	<u>20,124</u>	<u>1,352</u>	<u>(97)</u>
<i>By geographical area</i>				
United Kingdom	31,027	16,452		
Italy	6,628	-		
Other Europe	3,817	672		
Far East	3,808	952		
Australasia	1,065	150		
Other	318	1,898		
	<u>46,663</u>	<u>20,124</u>		

The analysis of operating profit by geographical area has been omitted.

3 OPERATING PROFIT

Operating profit/(loss) is stated after charging:

	1986 £000	1985 £000
Operating expenses (Note 4)	45,286	20,251
Share of loss/(profit) of related companies	25	(30)

4 OPERATING EXPENSES

Operating expenses comprise:	1986 £000	1985 £000
Change in stocks	(1,333)	8,168
Components and consumables	29,028	5,309
Other external charges	10,670	3,221
Staff costs (Note 5)	5,444	2,816
Depreciation of tangible fixed assets		
- owned	1,257	656
- leased	81	6
Auditors' remuneration	77	35
Hire of plant and equipment	36	33
Finance lease interest	26	7
	<u>45,286</u>	<u>20,251</u>

5 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

(a) Employees	1986 £000	1985 £000
Staff costs during the period:		
Wages and salaries	5,154	2,629
Social security costs	252	168
Other pension costs	38	19
	<u>5,444</u>	<u>2,816</u>
Number of persons employed:	1986 No.	1985 No.
Average weekly number	270	274
At end of period	290	251
(b) Directors	1986 £000	1985 £000
Staff costs include the following remuneration in respect of the directors of Acorn Computer Group plc:		
Fees as directors	15	9
Other emoluments (including pension contributions)	165	130
Ex-gratia payment to former director	39	-
	<u>219</u>	<u>139</u>

These costs (excluding pensions and pension contributions) include amounts paid to:

Chairman	Nil	Nil
Highest paid director	77	33

The number of other directors who received emoluments (excluding pensions and pension contributions) in the following ranges were (1985 figures annualised):

	1986 No.	1985 No.
£0 - £5,000	3	3
£5,001 - £10,000	3	2
£10,001 - £15,000	-	1
£15,001 - £60,000	1	-
£60,001 - £65,000	-	2

The number of employees, other than directors of the company, whose emolument is, excluding pensions and pension contributions, fell in each £5,000 bracket over £30,000 were (1985 figures annualised):

	1986 No.	1985 No.
£30,001 - £35,000	2	-
£35,001 - £40,000	2	1
£40,001 - £45,000	2	2
£45,001 - £50,000	2	-
£50,001 - £55,000	2	1
£55,001 - £60,000	1	-
£60,001 - £100,000	1	-

6 EXCEPTIONAL ITEMS

Exceptional items comprise:	1986 £000	1985 £000
Profit on disposal of trade investment (Note 12)	254	-
Provisions against stock	-	(1,926)
	<u>254</u>	<u>(1,926)</u>

7 NET INTEREST PAYABLE

	1986 £000	1985 £000
Interest receivable - bank	56	11
Interest payable:		
On bank loans and overdrafts - repayable within 5 years, by instalment	-	(389)
- repayable within 5 years, not by instalment	(464)	(383)
On loan stock	(151)	-
On rescheduled payments to trade creditors	(22)	(160)
	<u>(581)</u>	<u>(921)</u>

8 TAXATION

Taxation for the year comprises:	1986 £000	1985 £000
United Kingdom		
Advance Corporation Tax	-	(69)
Deferred tax	-	2,357
Adjustments relating to prior years	37	33
	<u>37</u>	<u>2,321</u>
Overseas taxation	(37)	(27)
	<u>-</u>	<u>2,294</u>

The charge to UK corporation tax has been reduced by utilisation of trading losses brought forward from previous years.

9 EXTRAORDINARY ITEMS

Extraordinary items comprise:	1986 £000	1985 £000
Release of foreign exchange reserve	1,062	-
Provision for settlement of VAT investigation	-	(345)
Loss on disposal of leased asset portfolio	-	(675)
	<u>1,062</u>	<u>(1,020)</u>

The foreign exchange reserve released related to the company's investment in Acorn Computers Corporation. The activities of this company terminated during the year. The exchange reserve, which arose on the translation of the net assets and results of the company in previous years, is now released to the profit and loss account.

During the year, a settlement of the VAT investigation referred to in the previous Annual Report was reached within the provision established.

10 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on a profit of £1,025,000 (December 1985 - loss of £90,000) and on 66,390,905 (December 1985 - 52,477,861) ordinary 10p shares, being the weighted average number of shares in issue during the period.

Dilution of these figures to allow for the full exercise of outstanding share purchase options (Note 18) does not significantly alter the earnings per share.

11 TANGIBLE FIXED ASSETS

Group	Total		
	£000	Land fixtures, buildings and fittings, £000	tools and equipment £000
Cost			
At 1 January 1986	6,262	1,740	4,522
Additions	930	313	617
Disposals	(956)	(284)	(672)
At 31 December 1986	6,236	1,769	4,467
Depreciation			
At 1 January 1986	2,536	435	2,101
Charge for the year	1,338	156	1,494
Disposals	(408)	-	(408)
At 31 December 1986	3,466	591	2,875
Net book value			
At 31 December 1986	2,770	1,178	1,592
At 1 January 1986	3,726	1,305	2,421
Company			
Net book value			
At 31 December 1986	-	-	-
At 1 January 1986	16	-	16

The net book value of land and buildings comprises:

	1986	1985
	£000	£000
Freehold	-	279
Short leasehold	1,178	1,026
	1,178	1,305

The net book value of fixed assets of £2,770,000 includes an amount of £282,000 (1985 - £205,000) in respect of assets held under finance leases.

12 INVESTMENTS HELD AS FIXED ASSETS

Group	Total £000	Related companies £000	Trade investment £000	Investment in fellow subsidiary £000
Cost				
At 1 January 1986	1,138	928	210	-
Additions	509	509	-	-
Disposals	(155)	-	(155)	-
Repayment of loan	(55)	-	(55)	-
Reclassification	-	(1,036)	-	1,036
At 31 December 1986	1,437	401	-	1,036
Share of post acquisition results				
At 1 January 1986	(82)	(82)	-	-
Movement in period	(25)	(25)	-	-
At 31 December 1986	(107)	(107)	-	-
Net book value				
At 31 December 1986	1,330	294	-	1,036
At 1 January 1986	1,056	846	210	-

The above investments are represented by interests in the issued equity capital of the related and fellow subsidiary companies. The advance of £233,000 noted in 1985 was invested in the common stock of Laserdrive Limited as part of the arrangements set out below.

Company	Shares £000s	Loans £000s
Investment in subsidiaries		
Cost		
At 1 January 1986	1,000	21,086
Reduction in loans	-	(1,004)
At 31 December 1986	1,000	20,082
Amounts written-off		
At 1 January 1986	-	18,404
Written back	-	(1,818)
At 31 December 1986	-	16,586
Net book value	1,000	3,526

Company	Total Related com- panies	Trade invest- ment	Invest- ment in fellow sub- sidiary
Related companies and other investments			
Cost			
At 1 January 1986	1,083	928	155
Additions	509	509	-
Disposals	(155)	-	(155)
Reclassification	-	(1,036)	-
At 31 December 1986	1,437	401	1,036

All the above companies are unlisted investments and details of the principal investments held at the end of the year are shown below.

Subsidiaries (all 100% owned)	Country of registration and principal country of operation	Principal activity
Acorn Computers Limited	England	Principal operating company of group - R&D, manufacturing and sales

Acorn Computers (Far East) Limited*	Hong Kong	Control of Far East manufacturing, and marketing of Acorn products in Far East and Australasia
Acorn Research Center Inc*	USA	Advanced software research and development

*Indicates where shareholding held other than directly by Acorn Computer Group plc.

During the year, Vector Marketing Limited ceased to trade on its own account, having transferred its activities to Acorn Computers Limited.

Related and other companies	Country of registration and principal country of operation	% held	Principal activity
Torus Systems Limited	England	25.3%	Development and marketing of software applications
Laserdrive Limited	USA	35%*	Design, development and manufacture of optical digital storage and retrieval systems

*This investment represents 50% of the company's issued common stock and 35% of the total equity of the company in issue.

(a) IQ (Bio) Limited
During the year the group disposed of its shareholding in IQ (Bio) Limited. This disposal yielded cash of £409,000 net of expenses of disposal and a book profit of £254,000 (Note 6).

(b) Laserdrive Limited
The group's investment in Optical Information Systems Limited (OIS), a company registered in Hong Kong, has undergone a change during the year. The assets and liabilities of OIS were transferred to its Californian subsidiary, Laserdrive Limited, at their net book value and OIS was put into members' voluntary liquidation.

12 CONTINUED

As a result of its direct and indirect shareholdings, Ing C Olivetti & C., S.p.A. holds a controlling interest in Laserdrive Limited. Hence it is not appropriate that the group's investment be treated as one in a related company and it has therefore been shown as an investment in a fellow subsidiary company.

13 STOCKS

Group	1986		1985	
	£000	£000	£000	£000
Components and consumables	1,489	4,087		
Finished goods	7,710	3,779		
	<u>9,199</u>	<u>7,866</u>		

14 DEBTORS

Amounts falling due within one year:	Group		Company	
	1986 £000	1985 £000	1986 £000	1985 £000
Trade debtors	10,856	6,553	-	-
Amounts owed by subsidiaries	-	-	-	3
Other debtors	2,016	1,941	7	-
Prepayments and accrued income	100	458	-	-
	<u>12,972</u>	<u>8,952</u>	<u>7</u>	<u>3</u>

15 CREDITORS

Amounts falling due within one year:	Group	
	1986 £000	1985 £000
Bank overdraft	<u>2,753</u>	<u>6,948</u>

The bank overdraft is the subject of a fixed and floating charge on the assets of the company and its UK subsidiaries.

The group has available from its bankers a £16 million credit facility which is supported by a letter of comfort from the Olivetti Group.

	Group		Company	
	1986 £000	1985 £000	1986 £000	1985 £000
Other creditors				
Trade creditors	10,469	3,132	-	-
Corporation Tax	-	69	-	68
Other taxation and social security	125	1,521	-	26
Other creditors	1,275	348	-	-
Finance lease and hire purchase obligations	146	60	-	-
Accruals and deferred income	1,208	735	35	24
Amounts due to subsidiaries	-	-	23	23
	<u>13,223</u>	<u>5,865</u>	<u>58</u>	<u>141</u>

16 CREDITORS

Amounts falling due after more than one year:	Group	
	1986 £000	1985 £000
Loan stock	4,308	4,102
Obligations under finance leases	160	142
	<u>4,468</u>	<u>4,244</u>
Loan stock	1986 £000	1985 £000
Interest-bearing	3,631	3,425
Non interest-bearing	677	677
	<u>4,308</u>	<u>4,102</u>

The interest-bearing loan stock bears interest at 10% per annum. It is repayable in three equal tranches in 1990-92.

The non interest-bearing loan stock is repayable in annual amounts equal to (i) 25% of the amount by which the cumulative consolidated profit attributable to ordinary shareholders of the company and its subsidiaries for the period from 1 July 1985 to the end of the relevant financial period (net of losses during that whole period) exceeds £3 million less (ii) the nominal amount of all non interest-bearing loan stock previously redeemed by the company.

Both loan stocks are subordinated to all other unsubordinated creditors of the company.

17 PROVISIONS FOR LIABILITIES AND CHARGES - DEFERRED TAX

Group	1986 £000	1985 £000
At 1 January 1986	-	2,184
Credited in the period	-	(2,184)
At 31 December 1986	-	-
Deferred taxation comprises:		
Group	1986 £000	1985 £000
Excess of capital allowances over depreciation	1,505	1,268
Other timing differences	(1,262)	(37)
Losses carried forward	243 (243)	1,231 (1,231)

At 31 December 1986, estimated tax losses of £13,000,000 are available for carry forward against future trading profits.

18 CALLED-UP SHARE CAPITAL

	1986 £000	1985 £000
Authorised ordinary shares	7,000	7,000
Allotted, called-up and fully paid- 66,390,905 shares of 10p each	6,639	6,639

Under three share option schemes, the company has granted share options to certain employees. These options are for a total not exceeding 1,781,683 ordinary shares of 10p each and are exercisable at various dates from 19 March 1988 to 29 October 1996 at prices per 10p share of £4.59, £3.49, £1.20, £0.42 and £0.44.

19 RESERVES

Group	Share premium account £000	Other reserves £000	Profit & loss account £000
At 1 January 1986	15,800	1,104	(18,593)
Profit for the year	-	-	2,087
Exchange movements	-	(42)	-
Release of exchange reserves	-	(1,062)	-
At 31 December 1986	15,800	-	(16,506)
Group	Share premium account £000	Other reserves £000	Profit & loss account £000
Acorn Computer Group plc and subsidiaries	15,800	-	(16,399)
Related companies	-	-	(107)
At 31 December 1986	15,800	-	(16,506)

Company	Share premium account £000	Profit & loss account £000
At 1 January 1986	15,800	(17,789)
Profit for the year	-	1,283
At 31 December 1986	15,800	(16,506)

As provided by section 228 of the Companies Act 1985, the company does not present its own profit and loss account.

20 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

(a) Capital commitments

At the end of the year, there were no capital commitments (1985-none).

(b) Contingent liabilities

The company has guaranteed, and secured by a floating charge on its own assets, overdrafts of certain subsidiaries, amounting to £3,163,000 (1985 - £1,110,000).

20 CONTINUED

(c) Lease commitments

The group has entered into a number of non-cancellable finance leases in respect of plant and machinery and is committed to the following annual lease rentals:

Within one year	£144,000
Within 2-5 years	£160,000

In addition, the group leases equipment and buildings under short-term leases. The annual rentals on these leases during the year were £418,000 (1985 - £396,000 annualised). The rents payable are subject to review at various intervals specified in the leases.

The minimum annual rentals under these leases at 31 December 1986 are as follows:

Leases which expire	£000
-- within 2-5 years	22
-- after 5 years	396
	<hr/>
	418

(d) Pension arrangements

The group maintains two pension schemes. The executive scheme is available to certain senior managers of the company and its principal subsidiaries. The scheme is non-contributory.

In addition, there is a voluntary pension scheme which is available to substantially all of its employees. The scheme is contributory.

Both schemes are money-purchase schemes and are administered by trustees.

21 ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Ing C Olivetti & C., S.p.A, a company incorporated in Italy.

⊕ AUDITORS' REPORT

To the Members of Acorn Computer
Group plc.

We have audited the financial statements on
pages 10 to 20 in accordance with approved
auditing standards.

In our opinion, the financial statements, which
have been prepared under the historical cost
convention, give a true and fair view of the
state of affairs of the company and the group at
31 December 1986 and of the group profit and
source and application of funds for the year
then ended, and comply with the Companies

Act 1985.

Arthur Andersen & Co

ARTHUR ANDERSEN & CO

Chartered Accountants

Botjeman House

104 Hills Road

Cambridge CB2 1LH

30 March 1987

NOTICE OF MEETING

Notice is hereby given that the fifth Annual General Meeting of Acorn Computer Group plc will be held at The Churchill Suite, University Arms Hotel, Regent Street, Cambridge on Thursday 30 April 1987 at 11.00am for the following purposes:

1. To receive the report of the directors and the audited financial statements for the year ended 31 December 1986.
2. To re-elect F Agostinucci as a director.
3. To re-elect P Fosi as a director.
4. To re-elect J W Sutherland, who retires by rotation, as a director.
5. To re-appoint Messrs Arthur Andersen & Co as auditors to the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to determine the remuneration of the auditors.
6. As special business to consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution:

RESOLUTION THAT the board be and it is hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to an aggregate nominal amount of £360,900.50 provided that this authority shall expire on the date of the next Annual General Meeting after the passing of this resolution save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the board may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

7. As special business to consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution:
RESOLUTION THAT, subject to the passing of resolution 6, the board be and it is hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred by resolution 6 as if sub-section (1) of section 89 of the said Act did not apply to any such allotment provided that this power shall be limited:
(a) to the allotment of the equity securities in connection with a rights issue in favour of Ordinary shareholders where the equity securities respectively attributable to the interests of all Ordinary shareholders are proportionate (as nearly as may be) to the respective number of Ordinary shares held by them (save that the board may sell any Ordinary shares representing fractional entitlements for the benefit of the company)

and
(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £350,000 and shall expire on the date of the next Annual General Meeting of the company after the passing of this resolution save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the board may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

8. As special business to consider and, if thought fit, pass the following resolution, which will be proposed as an ordinary resolution:
RESOLUTION THAT every ten unissued Ordinary shares of 1p each in the capital of the company be consolidated into one unissued Ordinary share of 10p.

By Order of the Board

IL TIBBS
Secretary

Fulbourn Road
Cherry Hinton
Cambridge
CB1 4JN

30 March 1987

Notes

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member of the company.
2. Copies of service contracts of the directors with the company and its subsidiaries will be available for inspection at the registered office of the company during business hours on any weekday (excluding Saturday) from the date of this notice until the date of the Annual General Meeting and at The University Arms Hotel, Cambridge on 30 April 1987 from 10.45am until the conclusion of the meeting.