ACORN GROUP PLC ("ACORN")

PRELIMINARY ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 1998

Chairman's Statement

Offer by MSDW Investment Holdings for Acorn

The Board of Acorn has today announced that it has reached agreement on the terms of a recommended offer by MSDW Investment Holdings for Acorn, and I therefore expect that this will be my last report to shareholders as Chairman of Acorn. The offer is being made on the basis of 2 shares in ARM for every 5 shares in Acorn, which (based on the closing share prices immediately prior to the announcement of the offer) values each Acorn share at 279 pence and represents a premium of approximately 14 per cent. to Acorn's closing share price yesterday. I am delighted that we have been able to generate a value enhancing solution which enables Acorn shareholders to participate directly in ARM's extraordinary success.

In April 1998, Acorn supported and participated in ARM's initial public offering. During the year, the Group sold just over a fifth of its interest in ARM, mostly to repay borrowings and to finance its own core operating businesses. Over the six months prior to the date of this announcement, Acorn's share price has traded at an average discount of 16 per cent. to the post-tax market value per share of its investment in ARM.

Recognising that many shareholders have invested in the Company primarily because of its interest in ARM, the major focus for your Board has been to maximise this value for shareholders either as a direct shareholding in ARM, or as cash. Your Board believes that it has examined all the options for achieving this objective.

The Acorn Board (other than Stan Boland, who is precluded from expressing an opinion by virtue of his interest in the option agreement described below) considers that the offer by MSDW Investment Holdings represents the best available solution for Acorn shareholders and offers greater value than that which would be achieved in either a demerger or distribution in specie of ARM shares or by any other practical alternative. The offer also enables Acorn shareholders to receive this value as a direct holding in ARM shares. It is for these reasons that your Board (other than Stan Boland) has recommended acceptance of the offer for Acorn.

Acorn's operating businesses

Acorn's operating businesses underwent significant changes during the year. In 1998 they collectively generated revenues of £11.5m and operating losses of £(10.0)m, compared with revenues of £25.2m and operating losses of £(3.7)m in 1997.

In June 1998, Stan Boland succeeded David Lee as Chief Executive Officer of the Group. Following his appointment the operating company was significantly rationalised and redefined, focusing on the development of set-top boxes and on silicon and software development. Shortly after the end of the year, the operating company sold its 50% interest in Xemplar Education Limited to its joint venture partner, Apple, providing further working capital for these businesses.

Both the set-top box business and the silicon and software development activity are at early stages of development and there is no certainty that either or both can be successfully brought into sustainable profit and growth. In order to remain competitive, Acorn would need to fund the development of next generation digital set-top box designs, despite the current relatively low revenue basis for such an investment. Successful development of the silicon and software business would similarly require very significant investment in design tools and in engineering resources over a sustained period. Furthermore, the grouping of these two businesses together is ultimately unsatisfactory from a market, investment and management viewpoint.

Given the above, your Board has concluded that it is inappropriate for their development to be funded through the public markets, either directly, or indirectly through further disposals of ARM shares. Your Board therefore entered into negotiations with a trade purchaser in respect of the set-top box business and agreed that Stan Boland, Chief Executive, and certain senior management of Acorn should be permitted to explore the possibility of obtaining external finance in respect of the silicon and software development activity. In the course of discussions with MSDW Investment Holdings, these negotiations were accelerated to minimise any liabilities attaching to these businesses which would otherwise be reflected in the terms of the offer. As a result of these negotiations your Board has agreed to sell the set-top box business to Pace Micro Technology plc for net asset value of approximately £0.2 million and to grant an option to a company owned by Stan Boland and certain senior management to purchase (subject to obtaining external financing) the silicon and software design activity for net asset value of approximately £1.0 million. The offer reflects the value of these transactions, both of which are conditional on the offer by MSDW Investment Holdings being declared unconditional in all respects. The outcome of either transaction will not affect the terms of the offer.

Chief Executive's Review

During the first half of 1998, considerable management time was devoted to achieving a successful initial public offering of ARM Holdings plc. ARM's IPO on 18th April 1998 allowed the Group to repay its indebtedness and enabled the management to focus on the future strategic direction for the core operating businesses and the Group as a whole.

In June 1998, I was appointed CEO of the Group. Management changes were made immediately following my appointment and a full-scale review of the core operating businesses commenced.

In September 1998, the operating company cancelled its Risc PC2 workstations development program, and cut its staff numbers by almost 40% to reduce on-going losses. During the period January to September 1998, operating losses had amounted to £(9.0)m. The operating company was redefined as encompassing two businesses: (i) a set-top box business, targeting primarily the emerging interactive digital TV market delivered to the home via xDSL or cable, and (ii) a silicon and software development activity, targeting the design and development of a high performance media digital signal processor (DSP).

Since September, the set top-box business has seen some success at gaining market acceptance. After several years of annual set top box shipments being less than 1,000, the operating company secured firm orders for over 3,000 set top boxes and two frame agreements, each for 10,000 set top boxes. The operating company's relationships with pioneering companies in this market have also been preserved, notably with Oracle and Funai Electric Co. Ltd.

The silicon and software development activity has been focused on building a new software and services relationship with a major US silicon vendor and, for the longer-term, has been targeted on developing a silicon and software platform for a high performance media DSP. Revenues from this activity amounted to approximately £0.8m in 1998. This business was strengthened in

November 1998 with the recruitment of a team of seven silicon design engineers previously with STMicroelectronics. These engineers will form the basis of a new silicon design centre in Bristol.

Despite the restructuring referred to above, both business areas were lossmaking during the last quarter of 1998 and were required to invest further capital in product development. As a result, the operating company continued to lose money, but at a lower rate of £(0.9)m, during this last quarter of 1998, and these losses have continued into the first quarter of 1999.

Although I believe we have put the operating businesses in a stronger position than at the start of this year, given the strong desire of Acorn shareholders to enjoy direct access to the ARM shares, I do not believe their future plans can or should be executed within the existing corporate structure.

Finance Director's Review

During 1998, the Group generated revenues of £11.5m (1997: £25.2m) and an operating loss of £(10.0)m (1997: £3.7m).

The disposals in 1998 of just over one fifth of Acorn's holding in ARM generated a pre-tax profit of £18.1m (1997: nil), whilst the Group's share of associates pre-tax profits amounted to £3.1m (1997: £2.1m).

After accounting for a small loss of £(0.1)m due to the dilutive effect of the exercise of employee share options over new ARM shares by ARM employees (1997: £(0.4)m), the Group recorded a pre-tax profit in 1998 of £11.1m (1997: loss of £(2.3)m).

Interest and other finance charges for the year were nil (1997: charge of £(0.5)m). The Group suffered tax charges in 1998 of £(2.9)m (1997: £(0.5)m). The 1998 charge includes a liability of £(1.9)m in respect of capital gains tax on the ARM share disposals. No dividend is proposed (1997:nil).

As at 31 December 1998, the Group held net cash balances of £5.4m (1997: net borrowings of £(6.6)m) and equity shareholders' funds amounted to £18.8m (1997: £1.6m).

On 8th January 1999, the Group sold its 50% interest in Xemplar Education Limited to Apple Computer for a cash consideration of £3.0m. This investment was therefore reclassified as a current asset in the 31 December 1998 balance sheet.

27th April 1999

Consolidated Profit and Loss Account

YEAR ENDED 31 DECEMBER 1998	Notes	1998 £000	1997 £000
Turnover		11,516	25,192
Cost of Sales		(8,596)	(18,632)
Gross Profit		2,920	6,560
Distribution costs		(3,238)	(4,496)
Administration expenses		(5,058)	(2,892)
Research and development		(4,608)	(2,858)
Operating loss		(9,984)	(3,686)
Share of operating profit in associated undertakings			
ARM Holdings plc		2,787	2,063
Xemplar Education Ltd		331	80
Profit on disposal of shares		18,126	–
Loss incurred on dilution of shareholding in associate		(130)	(417)
Loss incurred on closure of overseas subsidiaries		–	(376)
Profit/(loss) on ordinary activities before finance charges		11,130	(2,336)
Finance charges (net)		(29)	(547)
Profit/(loss) on ordinary activities before taxation		11,101	(2,883)
Tax on profit/(loss) on ordinary activities		(2,858)	(479)
Retained profit/(loss) for the year		8,243	(3,362)
Earnings per share			
Basic	3	8.9 p	(3.7)p
Diluted	3	8.4 p	–

All operations of the Group continued throughout both periods.

Consolidated Statement of Total Recognised Gains and Losses

YEAR ENDED 31 DECEMBER 1998	1998 £000	1997 £000
Profit/(loss) for the financial year		
Group	6,083	(4,814)
Associates	2,160	1,452
Gain on increase in share of associate's net assets on flotation	8,397	–
Tax credit in relation to associate's employee stock option	36	–
Loss on foreign currency translation	(2)	(53)
Total recognised gains and losses relating to the year	16,674	(3,415)

Consolidated Balance Sheet

AT 31 DECEMBER 1998

	1998 £000	1997 £000
Fixed assets		
Intangible assets	249	969
Tangible assets	1,094	1,267
Investments	12,078	6,602
	13,421	8,838
Current assets		
Stocks	837	775
Debtors	3,176	3,905
Investments	2,214	–
Cash at bank and in hand	5,409	1,325
	11,636	6,005
Creditors		
Amounts falling due within one year	(6,079)	(13,019)
Net current assets/(liabilities)	5,557	(7,014)
Total assets less current liabilities	18,978	1,824
Creditors		
Amounts falling due after more than one year	(204)	(204)
Net assets	18,774	1,620
Capital and reserves		
Called-up share capital	9,261	9,204
Share premium account	13,684	13,261
Other reserves	7,923	(58)
Profit and loss account	(12,094)	(20,787)
Equity shareholders' funds	18,774	1,620

Consolidated Cash Flow Statement

YEAR ENDED 31 DECEMBER 1998	Notes	1998 £000	1997 £000
Net cash outflow from operating activities	4	(8,748)	(2,858)
Returns on investment and servicing of finance			
Interest received		205	67
Interest paid		(234)	(249)
Net cash outflow from returns on investment and servicing of finance		(29)	(182)
Capital expenditure and financial investment			
Purchase of intangible fixed assets		(182)	(971)
Purchase of tangible fixed assets		(453)	(659)
Net cash outflow from capital expenditure		(635)	(1,630)
Net cash outflow before financing		(9,412)	(4,670)
Financing activities			
Issue of ordinary shares		480	1,684
Redemption of loan stock		–	(26)
Net proceeds on disposal of shares in associated undertaking		19,403	–
Repayment of unsecured loan		(7,883)	–
Dividend received		1,496	–
Net cash inflow from financing		13,496	1,658
Increase/(decrease) in cash	5	4,084	(3,012)

Notes

1. The figures for the year ended 31 December 1998 do not comprise full statutory accounts within the meaning of Section 240 of the Companies Act 1985.

2. The accounting policies have been applied consistently throughout the year and the preceding year.

3. Profit/(loss) per Ordinary Share

The calculation of profit/(loss) per Ordinary Share is based on a profit of £8,243,000 (1997:loss of £3,362,000) and on 92,488,000 (1997:90,837,500) ordinary 10p shares, being the weighted average number of shares in issue during the year.

The fully diluted earnings per share is calculated allowing for the full exercise of outstanding share options in the Company and its subsidiaries and associates at the beginning of the year or date of grant if later. The adjusted weighted average number of shares is 92,656,000. No comparative figure has been given for the fully diluted earnings per share due to losses generated in 1997.

4. Reconciliation of Operating Loss to Cash Outflow from Operating Activities

	1998 £000	1997 £000
Operating loss	(9,984)	(3,686)
Depreciation and amortisation	818	1,223
Loss on disposal of fixed assets	710	106
(Increase)/decrease in stock	(62)	1,344
Decrease in debtors	729	3,468
Decrease in creditors	(957)	(4,548)
Profit on redemption of loan stock	–	(336)
Loss incurred on closure of New Zealand subsidiary	–	(376)
Foreign exchange losses	(2)	(53)
	(8,748)	(2,858)

5. Reconciliation of Net Cash Flow to Movement in Net Funds/(Debt)

	1998 £000	1997 £000
Increase/(decrease) in cash for the year	4,084	(3,012)
Cash outflow from redemption of loan stock	–	26
Cash outflow from repayment of unsecured loan	7,883	–
Change in net funds from cash flows	11,967	(2,986)
Non-cash changes:		
Profit on redemption of loan stock	–	336
Interest on unsecured loan	–	(365)
Movement in net funds in the year	11,967	(3,015)
Net cash/(debt) at start of period	(6,762)	(3,747)
Net cash/(debt) at end of period	5,205	(6,762)