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Chairman's Statement

The focus of your new Board for 1997 has been the reduction of operating losses and the introduction of a new strategy to return Tadpole Technology to profitable trading.

1997 reflected some of the benefits of these actions, with continuing operations recording a significantly reduced operating loss of £2.6m in 1997, compared to a £4.0m loss in the previous year.

The group's continuing operations also recorded a 10% improvement in gross margin, which increased from 17% in 1996 to 27% in 1997.

These results were achieved through a combination of tighter management control of costs and inventory, and the rationalisation of old product lines.

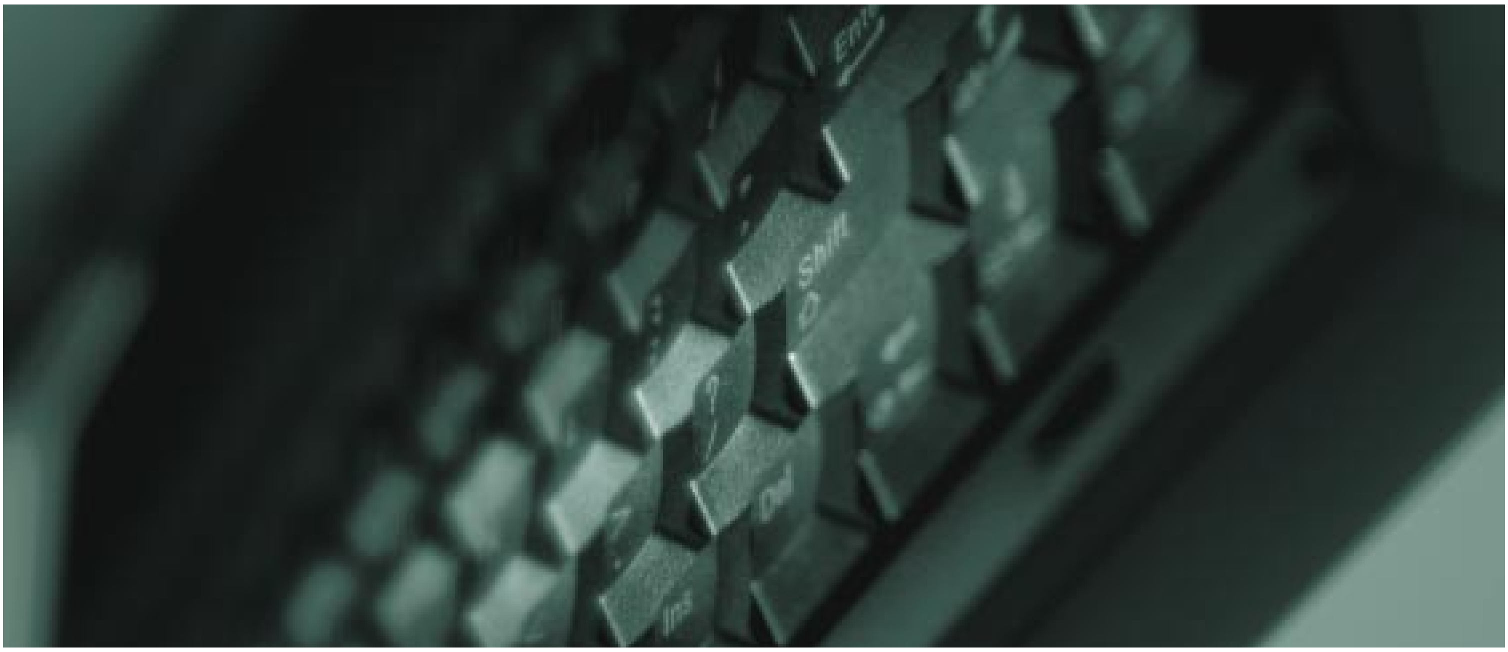
Strategically, Tadpole Technology is transitioning it's business from that of a broad-based hardware design and manufacturing company to that of a Solutions Vendor which designs and develops mobile hardware and software solutions based on Java and Sparc technologies from Sun Microsystems. During 1997 we invested over £1.5 million in new product developments and we continue to focus our investments on significant new product lines which we intend to bring to market during 1998.

Revenue for 1997 was £13.4m, which was £10.5m lower than 1996, reflecting Tadpole's withdrawal from unprofitable sectors such as PC notebooks, as well as completion of old OEM board contracts. Our continuing Sparcbook product line accounted for 80% of Group revenues and we aim to re-inforce our premier position in the mobile Sparc market with new mobile Sparc models introduced in late 1997 and more planned for early 1998.

Tadpole's relationship with Sun Microsystems, which dates back from 1992, has gone from strength to strength, and in October 1997 we were honoured with a prestigious award for being one of Sun's top vendors. Specifically, Sun referred to us as a supplier with the highest standard of product and services. We are proud to have received this award as a testimony to the efforts of all Tadpole employees in the UK and USA.

In reviewing our future direction, we examined how our traditional strengths in mobile computing could best be applied to the huge growth potential offered by Java and the Internet. As a result we embarked in late 1997 on a major new initiative which aims to position Tadpole as a leader in the mobile Java solutions market. We are currently developing an innovative hardware and software solution which will help Field service engineers in the Water, Gas and Electric Utility Industries to become more productive.

"…in October 1997 we were honoured with a prestigious award for being one of Sun's top vendors"



In addition to delivering the hardware platform, Tadpole is finalising an agreement that will grant it exclusive rights to innovative Java applications software, and is planning an initial pilot in the third quarter of 1998 with a UK based Utility company. We believe that the market for these specialised mobile devices in Utilities exceeds one million units, and that Tadpole can succeed by working closely with technology partners and specialist integrators in both the UK and USA.

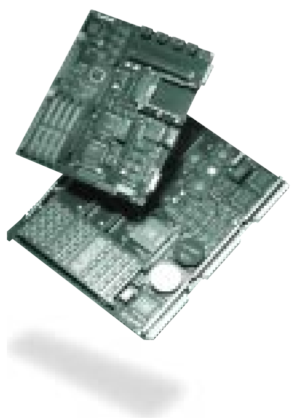
Our three major goals, designed to build upon our proven world class product development capability, are summarised as follows:

- establish a reputation as a centre of excellence that focuses on Sun Technology, delivering both hardware and software solutions
- focus our existing mobile Sparc/Solaris business into the Software Vendor, Networking and Telecomms markets, continuing to manage this business prudently whilst introducing new products to build sales
- aggressively invest in the growing new market for Java based solutions and establish early market leadership as a solutions vendor for field engineering professionals.

On behalf of the new Tadpole Board and all of the employees, I would like to take this opportunity to thank our investors for their support during this challenging period of transition, and I look forward to reporting in my next statement favourable progress towards the goals outlined above.

Lars Turndal

Lars Turndal
Chairman



Directors' Report

For the year ended 30 September 1997

The directors present their report on the affairs of the Group, together with the consolidated financial statements and auditors' report, for the year ended 30 September 1997.

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 the Group, and of the profit or loss of the group for the year. 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activities and business review
The principal activities of the Group are the design, development, manufacture and sale of computer systems and components.

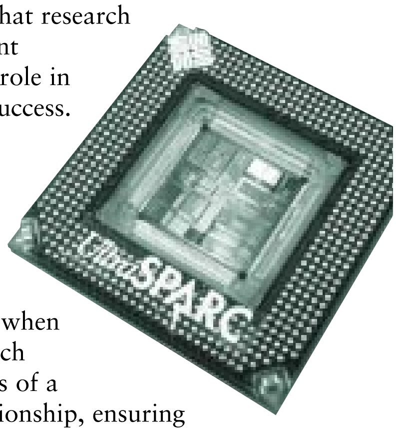
Turnover for the Group amounted to £13,419,000 (1996 – £23,950,000) during the year and the loss for the year after taxation amounted to £3,448,000 (1996 – loss £4,368,000).

Results and dividends
Group results and dividends are as follows:

	£000
Group accumulated deficit at the beginning of the year	(17,989)
Retained loss for the year	(3,448)
Goodwill written back on disposal	75
Gain on foreign exchange translation	135
Group accumulated deficit at the end of the year	(21,227)

The directors do not recommend the payment of a dividend.

Research and development
The directors consider that research and product development continue to play a vital role in the Group's long term success.



Creditors payment terms
The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, or the terms of a continuing trading relationship, ensuring that suppliers are made aware of the terms of payment, and to abide by these terms. The creditor days at the year end were 46 days (1996 – 75 days).

Share capital
During the year the Company issued the following:

20,000,000 ordinary shares of 10p each by way of a firm placing.

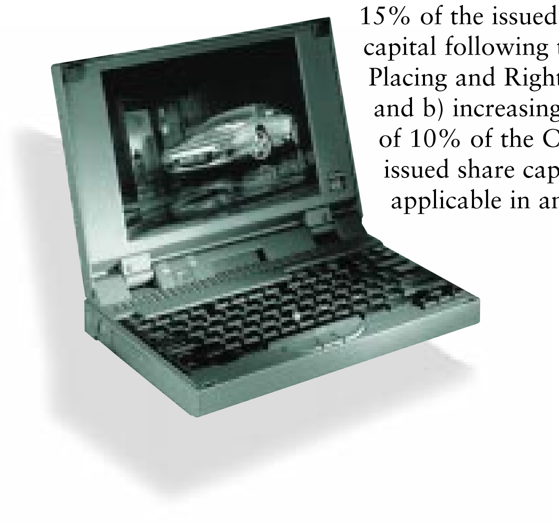
5,256,187 ordinary shares of 10p each by way of a rights issue.

The capital raised was used to supplement the Group's working capital.

Authority to allot shares and allotment of shares for cash
At the forthcoming annual general meeting, a resolution will be proposed to renew the Board's authority to allot unissued shares up to the limit of the maximum authorised share capital. This authority will last for five years, the maximum period allowed under the Companies Act 1985, and will replace the authority given at the extraordinary general meeting held on 27 May 1997.

The Board will recommend to shareholders that a limited power be granted to it at the annual general meeting, to allot equity securities for cash other than in accordance with shareholders' pre-emption rights, to an aggregate nominal value equivalent to 5% of the Company's issued ordinary share capital at that date, other than by way of a rights issue or open offer. Allotments of equity securities for cash above this amount will require shareholders' prior approval.

1987 Share Option Scheme
There are maximum overall limits on the number of share options which may be granted under the 1987 Share Option Scheme. During the year, the Board sought permission at the annual general meeting to amend the Scheme rules by a) increasing the limit on the maximum number of shares which may be issued under the Scheme from 2,710,327 shares (representing 15% of the issued share capital immediately following the Company's flotation in 1992) to 7,730,000 (representing approximately 15% of the issued share capital following the Firm Placing and Rights Issue) and b) increasing the limit of 10% of the Company's issued share capital, applicable in any 10 year period, on the number of shares which may be issued under the Scheme and any other scheme, to a 15% limit. This provided a further 5,019,673 options available for grant.



Directors and their interests
The directors who served throughout the year are as shown below.

P Higgins
(resigned 18 April 1997)

G C Brown
(appointed 14 October 1996)

R A Booth
(resigned 13 July 1997)

M P Hancock

G B R Howse
(resigned 28 April 1997)

J B Hulme

R A King
(Non-executive chairman) (resigned 2 June 1997)

L H Turndal
(Non-executive chairman) (appointed 9 June 1997)

L H Turndal was appointed as a non-executive director on 9 June 1997. He was educated in Gothenberg, gaining a degree in Electronics. He has held the position of Chairman, President and CEO of Santa Cruz Operation (SCO) where he was responsible for taking the company onto NASDAQ in 1993. Previous positions held were Senior VP International, MSI and President of Memorex International. He was also the Swedish Country manager for both Digital Equipment and Sperry Univac.

L H Turndal will offer himself for election by shareholders at the annual general meeting.

Directors' Report (continued)

Substantial shareholdings
At 29 January 1998 the company had been advised of the following shareholdings, other than those of directors, amounting to 3% or more of the ordinary share capital of the company.

Windvale Ltd	2,530,000 shares	4.9%.

Auditors
The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

B Hulme
CEO

137 Ditton Walk
Cambridge
CB5 8FN

29 January 1998

Remuneration Committee Report

The company has complied throughout the year with Section A "Remuneration Committees" of the best practice provisions on Directors' Remuneration annexed to the listing rules of the London Stock Exchange.

Remuneration Policy

The company's policy on Executive Director Remuneration is to ensure that individual remuneration reflects the long-term performance of the company, the performance of each director and the interests of the shareholders, and that the overall remuneration programme enables the company to attract and retain high-calibre executives.

The components of the Executive Directors' remuneration are base salary, an annual bonus plan and share options. In addition, the company provides a car (or cash alternative), pension contributions and other benefits. The remuneration committee sets the base salary giving due consideration to salaries paid to Executive Directors of similar companies in comparable business sectors and other information as it sees fit to use.

The Company's policy on the granting of share options is for the Board to propose a list of potential grantees to the Remuneration Committee for approval or adjustment as appropriate.

No director has a notice period greater than one year.

Full details of the Directors' emoluments are set out in Note 8 of the financial statements.

The beneficial interests of the directors who held office at 30 September 1997 in the share capital of the company at 30 September were:

	1997		1996	
	Ordinary shares	Options over ordinary shares	Ordinary shares of 10p each	Options over ordinary shares of 10p each
M P Hancock	–	366,000	–	66,000
J B Hulme	500,000	1,650,000	–	350,000
G C Brown	150,000	750,000	–	–
L H Turndal	141,500	–	–	–

Directors and their immediate families held no other interests in the shares of group companies.

Remuneration Committee Report (continued)

The change in directors' share options during the year was as follows:

Director	Number of options during the year				Exercise price	Market price at date of exercise	Date from which exerciseable	Expiry date
	At 1 October 1996	Granted	Lapsed during period	At 30 September 1997				
M P Hancock	5,000	–	–	5,000	95p	–	21/1/91	20/1/1998
	8,500	–	–	8,500	281p	–	12/2/96	11/2/2003
	15,000	–	–	15,000	269p	–	19/11/96	18/11/2003
	17,500	–	–	17,500	309p	–	28/6/97	27/6/2004
	20,000	–	–	20,000	80p	–	11/1/99	10/1/2006
	–	300,000	–	300,000	11p	–	5/8/2000	4/8/2007
J B Hulme	350,000	–	–	350,000	65p	–	28/7/99	27/7/2006
	–	1,300,000	–	1,300,000	11p	–	5/8/2000	4/8/2007
G C Brown	–	90,000	–	90,000	44p	–	25/10/99	24/10/2006
	–	660,000	–	660,000	11p	–	5/8/2000	4/8/2007
L H Turndal	–	–	–	–	–	–	–	–

The market price of the shares at 30 September 1997 was 9.75p and the range during the year was 49.5p to 7p.

No changes took place in the interests of directors in the group's shares between 30 September 1997 and 29 January 1998.

No director had any interest in a contract to which the company, or a subsidiary undertaking, was a party during the year.

Remuneration of Non-Executive Directors
Non-executive directors receive fixed salaries agreed by the full Board and do not receive any other form of remuneration.

Share options
Information on share options is given in Note 17 to the financial statements.

Corporate Governance

Corporate Governance
The Board considers it has complied with the Cadbury Code of Best Practice except that the Company does not have three Non-Executive Directors and accordingly the Audit Committee is not composed of three non-executive directors.

The auditors have confirmed that in their opinion, with respect to the Directors' statements on internal financial control (see below) and going concern on page 10, the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for Directors) and such statements are not inconsistent with the information of which they are aware from their audit work on the accounts; and that the Directors' other statements set out above appropriately reflect the Company's compliance with the other paragraphs of the Cadbury Code specified for their review. They were not required to perform the additional work necessary to, and did not express any opinion on, the effectiveness of the Company's system of internal control or its corporate governance procedures, nor on the ability of the Company to continue in operational existence.

Internal financial control
The Board of Directors has overall responsibility for ensuring that the Group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most cost effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system that operated throughout the period covered by the accounts are described under the following headings:

Management Information Systems
Incorporating planning, budgeting and forecasting systems and a monthly review of actual results compared with budget.

Group Controls
Common accounting systems and controls are in place throughout the Group and are monitored on a regular ongoing basis.

Organisation
There are well structured financial and administrative functions at both head office and subsidiary level staffed by appropriately qualified personnel. The key head office functions include:

Group Accounting
Corporate Planning and Group Treasury
Legal and Company Secretarial
Group Taxation

All functions report to the Board of Directors on a regular basis to provide assurance that their respective areas of responsibility are adequately controlled.

Monitoring Procedures
All aspects of internal financial control are considered and monitored regularly by the Board of Directors and the Audit Committee. The Audit Committee reviews the operation and effectiveness of this framework on a regular basis.

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

Corporate Governance (continued)

Auditors' responsibilities
Company law requires auditors to form an independent opinion on the financial statements presented by the directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the companies in the Group have maintained proper accounting records;
- that the financial statements are in agreement with the accounting records;
- that directors' emoluments and other transactions with directors are properly disclosed in the financial statements; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The auditors' opinion does not encompass the Chairman's statement on pages 2 and 3 or the Directors' report on pages 4 to 6. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the Chairman's statement and Directors' report are inconsistent with the financial statements.

Auditors' Report on Corporate Governance Matters

Report by the Auditors to Tadpole Technology plc
In addition to our audit of the financial statements, we have reviewed the directors' statements on page 9 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not express, any opinion on the effectiveness of either the company's system of internal financial control or its corporate governance procedures nor on the ability of the company and group to continue in operational existence.

Opinion
With respect to the directors' statements on internal financial control and going concern on page 9, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 9 appropriately reflects the company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

Arthur Andersen
Chartered Accountants and Registered Auditors

Betjeman House
104 Hills Road
Cambridge CB2 1LH

29 January 1998

Auditors' Report

To the Shareholders of Tadpole Technology plc:
We have audited the financial statements on pages 13 to 32 which have been prepared under the historical cost convention and the accounting policies set out on pages 18 to 20. We have also examined the amounts disclosed relating to the share options of the directors which form part of the Remuneration Committee report on pages 7 and 8.

Respective responsibilities of directors and auditors
As described on page 4 the company's directors are responsible for the preparation of the 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 circumstances of the company and of the group, 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.

Going concern
In forming our opinion we have considered the adequacy of disclosures made in Note 1 of the financial statements concerning the directors' plans for operating within their current and anticipated bank facilities. In view of the significance of the fact that the preparation of the financial statements on the going concern basis assumes the success of these plans, we consider that these disclosures should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 30 September 1997 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors

Betjeman House
104 Hills Road
Cambridge CB2 1LH

29 January 1998

Consolidated Profit and Loss Account

For the year ended 30 September 1997

	Notes	1997 £000	1997 £000	1996 £000	1996 £000
Turnover					
Continuing operations		12,935		22,280	
Discontinued operations		484		1,670	
	3		13,419		23,950
Cost of sales	4		(9,819)		(19,614)
Gross profit			3,600		4,336
Distribution and selling costs	4		(3,699)		(4,905)
Administrative expenses	4		(1,166)		(1,714)
Research and development costs	4		(1,516)		(1,822)
Operating loss					
Continuing operations		(2,630)		(4,021)	
Discontinued operations		(151)		(84)	
			(2,781)		(4,105)
Loss on termination of discontinued operations	5		(120)		–
Restructuring costs	5		(504)		–
Loss on ordinary activities before interest			(3,405)		(4,105)
Net interest payable	6		(118)		(280)
Loss on ordinary activities before taxation	7		(3,523)		(4,385)
Tax on loss on ordinary activities	9		75		17
Retained loss for the year			(3,448)		(4,368)
Loss per ordinary share:					
Basic	10		(10.3p)		(16.6p)
Retained loss for the year					
The company			(2,305)		(4,201)
Group undertakings			(1,143)		(167)
			(3,448)		(4,368)

A statement of movements on reserves is given in Note 18.

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

Statement of Total Recognised Gains and Losses

For the year ended 30 September 1997

	1997	1996
	£000	*£000*
Loss for the financial year	**(3,448)**	(4,368)
Gain (loss) on foreign currency translation	**135**	(46)
Total recognised losses relating to the year	**(3,313)**	(4,414)

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

Consolidated Balance Sheet

30 September 1997

	Notes	1997 £000	1996 £000
Fixed assets			
Intangible assets	11	–	66
Tangible assets	12	766	1,074
		766	1,140
Current assets			
Stocks	14	1,407	2,609
Debtors	15	2,577	4,511
Cash at bank and in hand		887	889
		4,871	8,009
Creditors: Amounts falling due within one year	16	(4,010)	(6,502)
Net current assets		861	1,507
Total assets less current liabilities		1,627	2,647
Creditors: Amounts falling due after more than one year		–	–
Net assets		1,627	2,647
Capital and reserves			
Called-up share capital	17	5,154	2,628
Share premium account	18	17,700	18,008
Accumulated deficit	18	(21,227)	(17,989)
Shareholders' funds – all equity	19	1,627	2,647

Signed on behalf of the Board

J B Hulme

Director

29 January 1998

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

Company Balance Sheet

30 September 1997

	Notes	1997 £000	1996 £000
Fixed assets			
Intangible assets	11	–	66
Tangible assets	12	612	737
Investments	13	264	325
		876	1,128
Current assets			
Stocks	14	845	1,851
Debtors	15	2,042	7,621
Cash at bank and in hand		800	469
		3,687	9,941
Creditors: Amounts falling due within one year	16	(2,427)	(3,610)
Net current assets		1,260	6,331
Total assets less current liabilities		2,136	7,459
Creditors: Amounts falling due after more than one year		–	–
Net assets		2,136	7,459
Capital and reserves			
Called-up share capital	17	5,154	2,628
Share premium account	18	17,700	18,008
Accumulated deficit	18	(20,718)	(13,177)
Shareholders' funds – all equity	19	2,136	7,459

Signed on behalf of the Board

J B Hulme

Director

29 January 1998

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

Consolidated Cash Flow Statement

For the year ended 30 September 1997

	Notes	1997 £000	1996 £000
Net cash (outflow) inflow from operating activities	20	(974)	1,482
Returns on investments and servicing of finance			
Interest received		37	17
Interest paid		(154)	(287)
Interest element of finance lease rentals		(1)	(10)
Net cash outflow from returns on investments and servicing of finance		(118)	(280)
Taxation			
Corporation tax recovered		75	–
Overseas tax received		–	17
Tax recovered		75	17
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(421)	(200)
Proceeds from the disposal of tangible fixed assets		3	6
Payments to acquire intangible fixed assets		–	(13)
Net cash outflow from capital expenditure and financial investment		(418)	(207)
Net cash (outflow) inflow before financing		(1,435)	1,012
Financing			
Proceeds from issue of ordinary shares (net)		2,218	–
Capital element of finance lease repayments	21	(30)	(80)
Net cash inflow (outflow) from financing		2,188	(80)
Increase in cash in the year	21	753	932

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to the Consolidated Financial Statements

30 September 1997

1 Basis of preparing the financial statements

After making enquiries, and taking into account current year losses of £3.4 million for the 12 month period to 30 September 1997, management's estimate of future business, their recently implemented cost rationalisation initiatives and the matters described below, the directors have a reasonable expectation that the company has adequate financial resources to continue in operation for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the accounts.

The company has an overdraft facility of up to $4 million, which is secured over 80% of eligible trade debtors and 40% of finished goods inventory (up to a maximum of $1 million) held by Tadpole Technology Inc. On the basis of projections which show a decline in sales of existing product lines alongside the introduction of new product lines and ongoing operating cost savings, the directors expect the group cash flow from trading to operate within the banking facility which was reviewed and amended in August 1997 and extended for another year to 30 September 1998. The directors have no reason to believe that it will not be extended beyond this date if necessary.

2 Accounting policies

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

a) *Basis of accounting*

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

b) *Basis of consolidation*

The group financial statements consolidate the financial statements of Tadpole Technology plc and all its subsidiary undertakings made up to 30 September 1997.

The results of subsidiary undertakings are included from the effective date of acquisition. Goodwill upon consolidation, representing the difference between cost and fair value of the net assets acquired, is written off against reserves in the year of acquisition.

No company only profit and loss account is presented for Tadpole Technology plc, as provided by S230 of the Companies Act 1985.

c) *Tangible fixed assets*

Fixed assets are shown at cost net of depreciation. Depreciation is provided on all tangible fixed assets in equal amounts each year in order to write off the cost of fixed assets, less estimated residual value, over their anticipated useful lives. Estimated useful lives are:

Fixtures and fittings	5 – 10 years
Computer, test equipment and tooling	2 – 5 years
Motor vehicles	4 years

2 Accounting policies (continued)

d) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	Purchase cost on a first-in, first-out basis, including transport.
Work-in-progress and finished goods	Cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal 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.

e) Taxation

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

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.

f) Research and development

Research and development expenditure is written off in the year of expenditure.

g) Intangible fixed assets

Expenditure incurred on acquiring rights to use third party software and technology, necessary for the development of the group's products, is capitalised and amortised in line with anticipated sales of the products, or within three years if sooner.

h) Pension costs

The company makes contributions to personal pension schemes operated by the individual employees of the company which are charged to the profit and loss account in the periods to which they relate.

i) Foreign currencies

In the financial statements of individual undertakings, transactions in foreign currencies are recorded in the local currency at the actual exchange rates ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date, exchange differences arising being taken to the profit and loss account.

On consolidation, assets and liabilities of subsidiary undertakings are translated into sterling at closing rates of exchange. Profit and loss accounts are translated at average rates of exchange. Exchange differences resulting from the translation at closing rates of net investments in subsidiary undertakings, together with differences between income statements translated at average rates and at closing rates, are dealt with in reserves.

Notes to the Consolidated Financial Statements (continued)

2 Accounting policies (continued)

j) *Leases*

Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of charge on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate. Rentals under operating leases are charged to the profit and loss account as incurred.

k) *Turnover*

Group turnover comprises the value of sales (excluding VAT and similar taxes, trade discounts and intra-group transactions) of goods and services in the normal course of business.

3 Segment information

Contributions to group turnover were as follows:

Geographical segments

	1997 Origin				1996 Origin			
	UK	Europe	North America	Group	UK	Europe	North America	Group
Turnover	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Destination								
UK	**1,169**	**–**	**–**	**1,169**	1,997	3	–	2,000
Europe	**1,285**	**484**	**1**	**1,770**	1,392	1,656	–	3,048
North America	**7**	**–**	**10,392**	**10,399**	98	–	18,574	18,672
Asia	**26**	**–**	**–**	**26**	–	–	156	156
Australasia	**1**	**–**	**54**	**55**	16	11	47	74
	2,488	**484**	**10,447**	**13,419**	3,503	1,670	18,777	23,950
(Loss) profit before interest and taxation	**(7,532)**	**(168)**	**4,295**	**(3,405)**	(3,747)	102	(460)	(4,105)
Net assets (liabilities)	**2,006**	**–**	**(379)**	**1,627**	5,635	147	(3,135)	2,647

4 Cost of sales and operating costs

	1997 Continuing £000	1997 Discontinued £000	1997 Total £000	1996 Continuing £000	1996 Discontinued £000	1996 Total £000
Cost of sales	**9,483**	**336**	**9,819**	18,486	1,128	19,614
Distribution and selling expenses	**3,400**	**299**	**3,699**	4,279	626	4,905
Administration expenses	**1,166**	**–**	**1,166**	1,714	–	1,714
Research and development costs	**1,516**	**–**	**1,516**	1,822	–	1,822
	6,082	**299**	**6,381**	7,815	626	8,441

5 Exceptional costs

The exceptional costs have resulted from both the closure of Tadpole Technology SA and the restructuring of the remaining group undertakings. Within the restructuring costs is £75,000 which represents the goodwill write off, previously written off to reserves upon consolidation in respect of Tadpole Technology SA, as required by Urgent Issues Task Force abstract 3: Treatment of goodwill on disposal of a business.

6 Net interest payable

	1997 £000	1996 £000
On bank loans and overdrafts repayable wholly within five years	**153**	270
On assets held under finance leases	**1**	10
Other	**1**	17
	155	297
Bank deposit interest received	**(37)**	(17)
	118	280

Notes to the Consolidated Financial Statements (continued)

7 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	1997	1996
	£000	*£000*
(Profit) loss on disposal of tangible fixed assets	(3)	5
Amortisation of intangible fixed assets	66	54
Depreciation of tangible fixed assets		
– owned	670	1,707
– held under finance leases	44	16
Exceptional accelerated depreciation on owned assets	–	124
Premises rentals	458	553
Hire of equipment and motor vehicles	209	120
Auditors' remuneration – audit services	60	70
– non audit services	81	20

8 Staff costs

Particulars of employees (including executive directors) are shown below:

Employee costs during the year amounted to:	1997	1996
	£000	*£000*
Wages and salaries	3,577	4,464
Social security costs	373	472
Other pension costs	133	130
	4,083	5,066

The average monthly number of persons employed by the group during the year was as follows:

	1997	1996
	Number	Number
Selling and customer service	54	57
Administration	16	18
Operations	44	59
Research and development	18	21
	132	155

8 Staff costs (continued)

Directors' remuneration:

	1997	1996
	£000	*£000*
Aggregate emoluments	**576**	406
Company contributions to money purchase schemes	**19**	23
Compensation for loss of office	**180**	111
	775	540

Highest paid director:

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

	1997	1996
	£000	*£000*
Aggregate emoluments	**221**	91
Company contributions to money purchase scheme	**–**	9
	221	100

Pensions:

The number of directors for which benefits are accruing under a money purchase scheme is 3 (1996 – 3).

Directors emoluments:

	Salary and fees	Taxable benefits	Annual bonuses	Compensation for loss of office	Money purchase pension contributions	Total
	£	£	£	£	£	£
Executive						
J B Hulme	182,004	6,527	32,500	–	–	221,031
G C Brown	102,050	316	15,000	–	–	117,366
R A Booth	68,633	9,081	–	102,088	7,369	187,171
G B R Howse	42,052	4,293	–	78,267	4,375	128,987
M Hancock	70,684	9,079	–	–	7,570	87,333
Non–Executive						
R A King	16,760	–	–	–	–	16,760
L H Trendal	7,782	–	–	–	–	7,782
P G Higgins	8,190	–	–	–	–	8,190
	498,155	29,296	47,500	180,355	19,314	774,620

Notes to the Consolidated Financial Statements (continued)

8 Staff costs (continued)

Compensation for loss of office includes pension contributions as follows:

G B R Howse	£7,241
R A Booth	£8,593

The amounts shown for pensions are amounts actually paid. As at 30 September 1997 G C Brown had accrued £13,500 in respect of pension contributions which he had not taken.

No director at 30 September 1997 has a service contract with the company of more than one year's duration.

The above figures for emoluments do not include any amount for the value of share options granted to, or held by directors. Details of the options are given in Note 17.

9 Tax on loss on ordinary activities

The taxation credit is based on the loss for the year and comprises:

	1997	1996
	£000	*£000*
Overseas taxation	–	(17)
Corporation tax recovered	(75)	–
	(75)	(17)

The group has tax losses amounting to approximately £13.9 million which, subject to agreement from the relevant taxation authorities, will be available for offset against future taxable income.

10 Loss per ordinary share

Basic loss per ordinary share is based on a group loss for the financial year of £3,448,000 (1996 – £4,368,000) and on 33,436,856 (1996 – 26,280,686) ordinary shares, the weighted average number of ordinary shares in issue and ranking for dividend during the year. The loss per share, ignoring the exceptional costs, amounts to 8.4p.

11 Intangible fixed assets

	Group and Company *£000*
Cost	
Beginning and end of year	142
Amortisation	
Beginning of year	76
Charge for the year	66
End of year	142
Net book value	
Beginning of year	66
End of year	–

Intangible fixed assets comprise software and technology licences.

Notes to the Consolidated Financial Statements (continued)

12 Tangible fixed assets

The movement in the year for the group was as follows:

	Fixtures and fittings £000	Computer, test equipment and tooling £000	Motor vehicles £000	Total £000
Cost				
Beginning of year	801	6,355	30	7,186
Additions	23	365	32	420
Disposals	(131)	(2,451)	(51)	(2,633)
Exchange adjustment	(19)	(44)	(2)	(65)
End of year	674	4,225	9	4,908
Depreciation				
Beginning of year	547	5,541	24	6,112
Charge for the year	98	578	38	714
Disposals	(131)	(2,451)	(51)	(2,633)
Exchange adjustment	(14)	(35)	(2)	(51)
End of year	500	3,633	9	4,142
Net book value				
Beginning of year	254	814	6	1,074
End of year	174	592	–	766

Leased assets are included in the figures above as follows:

	Fixtures and fittings £000	Computer, test equipment and tooling £000	Motor vehicles £000	Total £000
Net book value				
Beginning of year	–	43	1	44
End of year	–	–	–	–

12 Tangible fixed assets (continued)

The movement in the year for the company was as follows:

	Fixtures and fittings £000	Computer, test equipment and tooling £000	Motor vehicles £000	Total £000
Cost				
Beginning of year	313	5,296	8	5,617
Additions	–	356	–	356
Disposals	(45)	(2,383)	–	(2,428)
End of year	268	3,269	8	3,545
Depreciation				
Beginning of year	200	4,673	7	4,880
Charge for the year	29	451	1	481
Disposals	(45)	(2,383)	–	(2,428)
End of year	184	2,741	8	2,933
Net book value				
Beginning of year	113	623	1	737
End of year	84	528	–	612

Leased assets are included in the figures above as follows:

Net book value				
Beginning of year	–	43	1	44
End of year	–	–	–	–

13 Fixed asset investments

	Country of Incorporation	Proportion of ordinary shares held by the company
Tadpole Technology Inc (TTI)	USA	100%

The principal activity of TTI is the sale of the Group's products.

During the year the company closed its French subsidiary, Tadpole Technology SA, in which it held 100% of the shares.

Investments in subsidiary undertakings are held at cost.

Notes to the Consolidated Financial Statements (continued)

14 Stocks

The following are included in the net book value of stocks:

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Components	581	1,437	376	1,200
Work-in-progress	509	774	441	600
Finished goods	317	398	28	51
	1,407	2,609	845	1,851

There is no material difference between the balance sheet value of stocks and their replacement cost.

15 Debtors

The following amounts, all of which fall due within one year, are included in the net book value of debtors:

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Trade debtors	2,407	3,927	353	361
Amounts owed by subsidiary undertakings	–	–	1,591	6,846
Other debtors	53	184	54	184
Prepayments and accrued income	117	400	44	230
	2,577	4,511	2,042	7,621

16 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
Obligations under finance leases	–	30	–	30
Overdraft	1,075	1,873	–	–
Trade creditors	1,283	3,028	1,039	2,491
Social security and PAYE	110	209	72	82
Other creditors	115	164	108	82
Accruals and deferred income	1,427	1,198	1,208	925
	4,010	6,502	2,427	3,610

16 Creditors: Amounts falling due within one year (continued)

The group meets its day to day working capital requirements through an overdraft facility which is secured over 80% of good trade debtors and 40% of finished goods inventory (up to a maximum of $1 million) held by Tadpole Technology Inc up to a maximum of $4 million. The overdraft facility is guaranteed by Tadpole Technology plc. The group expects to operate within the facility currently agreed which remains in force until 30 September 1998.

17 Called–up share capital

	1997 £000	1996 £000
Authorised		
75,000,000 Ordinary Shares of 10p each (1996 – 33,800,000)	**7,500**	3,380
Allotted, called-up and fully-paid		
51,537,123 Ordinary Shares of 10p each (1996 – 26,280,936)	**5,154**	2,628

During the year the company issued 25,256,187 Ordinary Shares of 10p each with a nominal value of £2,525,619 at par and 5,051,237 warrants, convertible at 10p. Of the Ordinary Shares issued 20,000,000 were issued by way of a firm placing and 5,256,187 by way of a rights issue.

Share Options

At 30 September 1997, the following options were outstanding:

	Option Price Per Share (Range)	Last Date Exerciseable (Range)	Number of shares '000
1987 Employee Share Option Scheme	11p – 309p	Jan 1998 – Aug 2007	998
US Employee Share Option Scheme	11p – 309p	Nov 2001 – Aug 2007	353
Other Employee Share Option Schemes	11p – 80p	Jan 2006 – Aug 2007	998
Former Executive Directors	65p	Nov 2002	30
Executive Directors	281p	Feb 2003	9
Executive Directors	269p	Nov 2003	15
Executive Directors	309p	Jun 2004	18
Executive Directors	80p	Jan 2006	20
Executive Directors	95p	Jan 1998	5
Executive Directors	65p	Jul 2006	350
Executive Directors	44p	Oct 2006	90
Executive Directors	11p	Aug 2007	2,260
Trinity College, Cambridge	79p	Jan 2006	150

During the year the following options were granted:

1987 Employee Share Option Scheme	11p	Aug 2007	733
US Employee Share Option Scheme	11p	Aug 2007	300
Other Employee Share Option Schemes	11p	Aug 2007	953
Executive Directors	11p	Aug 2007	2,260

Notes to the Consolidated Financial Statements (continued)

18 Reserves

	Share premium account £000	Group profit and loss account £000	Company profit and loss account £000
Beginning of year	18,008	(17,989)	(13,177)
Retained loss for the year	–	(3,448)	(7,541)
Costs of share issues	(308)	–	–
Goodwill written back on disposal	–	75	–
Gain on foreign currency translation	–	135	–
End of year	17,700	(21,227)	(20,718)

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off is £188,000 (1996 – £263,100).

The retained loss of the company for the year to 30 September 1997 amounted to £7,541,000 (1996 – £3,621,000 loss). During the year the company forgave $8 million (£4.9 million) of debt in respect of Tadpole Technology Inc. Ignoring the effect of this exceptional item the loss for the year would have been £2,601,000.

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	1997	1996	**1997**	1996
	£000	£000	£000	£000
Loss for the financial year	**(3,448)**	(4,368)	**(7,541)**	(3,621)
Other recognised gains and losses relating to the year	**135**	(46)	**–**	–
Goodwill expensed on disposal	**75**	–	**–**	–
New share capital subscribed	**2,526**	–	**2,526**	–
Issue costs	**(308)**	–	**(308)**	–
Net reduction in shareholders' funds	**(1,020)**	(4,414)	**(5,323)**	(3,621)
Opening shareholders' funds	**2,647**	7,061	**7,459**	11,080
Closing shareholders' funds	**1,627**	2,647	**2,136**	7,459

20 Reconciliation of the operating loss to net cash (outflow) inflow from operating activities

	1997 *£000*	1996 *£000*
Operating loss	**(3,405)**	(4,105)
Depreciation and amortisation charge	**781**	1,901
(Profit) loss on sale of fixed assets	**(3)**	5
Decrease in stock	**1,236**	3,140
Decrease in debtors	**1,961**	881
Decrease in creditors	**(1,619)**	(340)
Goodwill written back on disposal	**75**	–
Net cash (outflow) inflow from operating activities	**(974)**	1,482
Net cash (outflow) inflow from operating activities comprises:		
Continuing operating activities	**(895)**	1,251
Discontinued operating activities	**(79)**	231
	(974)	1,482

The operating loss shown above takes account of the exceptional items amounting to £624,000 (as shown on the face of the profit and loss account) for which there was a cash outflow of £279,000 in the year, £345,000 remains accrued at the year end in respect of these items.

21 Analysis and reconciliation of net debt

	1 October 1996 *£000*	Cash flow *£000*	Exchange movement *£000*	30 September **1997** *£000*
Cash in hand, at bank	889	25	(27)	**887**
Overdraft	(1,873)	728	70	**(1,075)**
		753		
Finance leases	(30)	30	–	**–**
Net debt	(1,014)	783	43	**(188)**

Notes to the Consolidated Financial Statements (continued)

21 Analysis and reconciliation of net debt (continued)

	1997 £000	1996 £000
Increase in cash in year	753	932
Cash outflow from decrease in debt	30	80
Change in net debt resulting from cash flows	783	1,012
Translation difference	43	(36)
Movement in net debt in year	826	976

22 Liquid resources

During the year the group had no liquid resources i.e. current asset investments held as readily disposable stores of value as defined by Financial Reporting Standard No 1 (Revised) "Cash Flow Statements". Funds were, however, placed on overnight deposits throughout the year.

23 Contingent liabilities

The company has guaranteed its US subsidiary's bank overdraft, the amount outstanding at 30 September 1997 being £1,075,000 (1996 – £1,873,000).

24 Financial commitments

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Annual commitments under operating leases:				
Leases expiring within one year				
Computer and office equipment	39	37	39	35
Motor vehicles	10	26	10	26
Leasehold premises	–	76	–	1
	49	139	49	62
Leases expiring within two to five years				
Computer and office equipment	32	60	29	47
Motor vehicles	83	108	83	98
Leasehold premises	60	–	60	–
	175	168	172	145
Leases expiring after five years				
Leasehold premises	71	421	–	421

The company and group had capital commitments of £155,000 at 30 September 1997 (1996 – nil).

Notice of Annual General Meeting

NOTICE is hereby given that the ANNUAL GENERAL MEETING of the Company will be held at Trinity Centre, Cambridge on 31 March 1998 at 10.30 a.m. for the following purposes:

1. To receive, consider and, if thought fit, receive and adopt the Report of the Directors and Audited Accounts of the Company for the year ended 30 September 1997.
2. To elect L H Turndal as a Director of the Company.
3. To re-appoint Arthur Andersen & Co. as auditors of the Company until the conclusion of the next General Meeting of the Company at which accounts of the Company are laid before the members and to authorise the Directors to determine their remuneration.
4. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

SPECIAL RESOLUTION

THAT:

(a) in place of any existing like authority, the Directors of the Company be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Companies Act 1985 (the "Act")) of the Company pursuant to Section 80 of the Act provided that:

(i) the maximum amount of relevant securities that may be allotted pursuant to the authority given by this resolution shall be an aggregate nominal amount of £1,585,164;

(ii) subject as provided in sub-paragraph (iii) of this resolution, the authority shall expire five years from the date of this resolution but may be previously revoked or varied by an ordinary resolution of the Company;

(iii) the authority shall permit and enable the Company to make an offer or agreement before the expiry of the authority which would or might require relevant securities to be allotted after such expiry and to permit the Directors to allot relevant securities pursuant to any such offer or agreement as if the authority had not expired; and

(iv) in relation to the grant of any rights to subscribe for, or to convert any security into, shares in the Company, the reference in this resolution to the maximum amount of relevant securities that may be allotted is to the maximum amount of shares which may be allotted pursuant to such rights; and

(b) the Directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) of the Company for cash (pursuant to the authority conferred on the Directors by paragraph (a) of this resolution) at any time up to the conclusion of the Company's annual general meeting to be held in 1999 or, if earlier, the expiry of 15 months from the date of the passing of this resolution, as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(i) the allotment of equity securities in connection with an offer or offers of equity securities (whether by way of a rights issue, open offer or otherwise) open for acceptance for a period fixed by the Directors to holders of equity securities of the Company on the register of

Form of Proxy

For use at the Annual General Meeting to be held at Trinity Centre, Science Park, Cambridge on 31 March 1998

I/We ....
(name(s) in full – BLOCK LETTERS)

of ....
being (a) holder(s) of Ordinary shares in Tadpole Technology plc hereby appoint

....
the chairman of the meeting (see note 4) as my/our proxy to attend and to vote for me/us and on my/our behalf at the Annual General Meeting of Tadpole Technology plc to be held on 31 March 1998 and at any adjournment thereof.

Please indicate with a X in the space below how you wish your votes to be cast. If no specific direction is given the proxy will vote or abstain at his discretion.

		For	**Against**
1.	To receive and adopt the Report of the Directors and Audited Accounts of the Company for the year ended 30 September 1997 Report and Accounts	☐	☐
2.	To elect L H Turndal as a Director	☐	☐
3.	To re-appoint Arthur Andersen & Co as Auditors of the Company and to authorise the Directors to determine the remuneration of the Auditors	☐	☐
4.	To authorise the Directors to allot securities and to disapply Section 89 of the Companies Act 1985	☐	☐

Dated ....1998 Signature(s) or Common Seal ....

Notes:

1. In order to be effective this Form of Proxy, duly completed and signed, together with any authority under which it is signed or a notarially certified copy of the authority, must be deposited at the address shown overleaf not later than 10.30 a.m. on 26 March 1998.
2. If the appointer is a corporation this form must be executed under its common seal or under the hand of an officer or attorney duly authorised on its behalf.
3. In the case of joint holders the vote of the member who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
4. A member may appoint one or more proxies of his own choice, in which case he should delete the reference to the chairman of the meeting and insert the name(s) of the person(s) appointed in the space provided.
5. A proxy need not be a member of the Company, but must attend the meeting in person to represent the member.
6. Completion of a Form of Proxy will not prevent the holder from attending and voting at the meeting in person should he so wish.

Third Fold (Tuck in)

BUSINESS REPLY SERVICE
Licence No. MB 122

1

Independent Registrars Group
Proxy Department
Bourne House
34 Beckenham Road
Kent
BR3 4BR

First Fold

Second Fold