

2003/2004

vitecgroup

Annual Report 2003



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COMPANIES HOUSE 14/05/04

2003 has seen significant progress on our 'Consolidate-Leverage-Grow' strategy. While the emphasis has been on consolidation, the benefits of our recent investments in R&D are beginning to come through with continuing volume growth in Photographic and encouraging projects in Broadcast.

Despite falling TV audience figures in the US, there are signs of an upturn in advertising there. In addition, photographic demand remains strong and we expect this to continue during 2004. However, we expect currency movements to continue to have a negative effect on the Group.

Digital TV Magazine
 Report of the UK
 Government on the
 state of the TV
 market

TV & Video
 Report of the
 IFA on the
 state of the
 TV market

Financial
 Review
 Report of the
 Board of Directors

The Year in
 Review
 Report of the
 Board of Directors

Remuneration
 Report
 Report of the
 Remuneration
 Committee

Accounts 2003
 Report of the
 Board of Directors

Corporate
 Social
 Responsibility
 Report
 Report of the
 Board of Directors

Consolidated
 Profit and Loss
 Account
 Report of the
 Board of Directors

Balance
 Sheets
 Report of the
 Board of Directors

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Shaping up

- ||||| Sales growth of 5.8%, both organic and from acquisitions
- ||||| Strong volume growth in Photographic
- ||||| Successful manufacturing restructuring
- ||||| Increased focus on media and entertainment markets, ALU business divested
- ||||| Recommended unchanged total dividend for the year of 22.7p

03	192.8
02	182.2
01	190.4
00	200.0
99	171.4

Turnover £m

03	17.8
02	24.7
01	30.6
00	40.1
99	38.2

*Operating profit £m

03	23.9
02	34.1
01	42.9**
00	62.8
99	54.3

*Headline earnings per share pence

03	22.7
02	22.7
01	22.7
00	21.2
99	18.5

Dividends per share pence

Sachtler's pantographs provide lighting suspension systems for every type of studio.

* before exceptional items, goodwill amortisation and impairment.

** 2001 restated for FRS19 deferred tax standard.

At a glance The Vitec Group supplies a wide range of equipment and services to the broadcasting, entertainment and photographic industries.

With products distributed in nearly 100 countries, over 94% of sales are outside of the UK, with 54% in the Americas.

Activities	Brands	Products
Photographic	Design and manufacture of photographic and video camera support, as well as lighting, support and suspension equipment, for professional photography, video, broadcast and cinematography. Distribution of photographic, video and cine related equipment and accessories.	Photographic, video heads and tripods. Lighting stands, grips, clamps and accessories. Lighting and scenery suspension equipment. Photographic accessories. Live entertainment and exhibition lighting suspension structures.
Broadcast systems	Design and manufacture of high quality equipment used principally by broadcast and live entertainment professionals. Focused on studio broadcast, outside broadcast, electronic news gathering and electronic film production markets with applications in the air traffic control and government markets.	Manual pedestals, tripods and heads for TV, ENG and EFP applications. Remote-controlled camera systems. Studio and portable lighting. Scenery hoists and pantographs. Microprocessor-controlled batteries and chargers for video cameras. Portable power systems for life support devices. Multi locational intercom systems. Party line intercom systems. Wireless intercom systems. Wireless microphones.
Broadcast services	Rental services and selected sales of camera, video, wireless communication and audio equipment, including engineering support for the film and TV programme production markets.	Rental of broadcast video equipment. Rental of audio equipment. Rental of high definition TV production support. Provision of support for major event broadcasting and webcasting. Sales of communications, audio equipment and used video equipment.

Vitec's Global Markets

Vitec Group products are sold worldwide, while the Broadcast Services division primarily operates in the United States.

Locations

France
Germany
Italy
USA

China
Costa Rica
France
Germany
Japan
The Netherlands
Singapore
UK
USA

USA

Vitec Group products are used by frontline professionals – for news gathering and documentary making, as well as in outside broadcast, live entertainment or sophisticated studio operations.

2003 saw progress on a number of fronts as we continued to reshape the business and position it for future growth. Our Broadcast manufacturing facilities have been restructured and substantial progress made on worldwide IT systems. We continued to launch attractive new products and our recent acquisitions have been integrated. However, the results were affected by a combination of overall weakness in our broadcast markets and by adverse currency effects.

Year on year revenues grew for the first time since 2000 (from £182.2 million in 2002 to £192.8 million in 2003) due to new products and the effect of several small acquisitions. However, operating profit before exceptional items, goodwill amortisation and impairment fell (from £24.7 million to £17.8 million) due to changing product mix, adverse exchange rates, the costs of increased product development activities and the inefficiencies associated with the series of plant closures undertaken in 2003.

Earnings per share, before exceptional items, goodwill amortisation and impairment, were 23.9p (2002: 34.1p) reflecting the factors above and the continuing high tax rate, which arises because most of the Group's profits are earned outside of the UK.

Cash generation remained strong, with net cash inflow from operating activities at £28.7 million (2002: £35.4 million) being 161% of operating profit before exceptional items, goodwill amortisation and impairment (2002: 143%).

Market overview The market remained strong for Vitec's Photographic brands, particularly in the US. However the demand for our Broadcast Systems products and for Broadcast Services rental service did not recover. After an encouraging first three months in 2003, the Gulf War and a slowdown in Asia depressed sales through most of the rest of the year.

Weakness in broadcast markets was offset by success in other discrete areas, such as live entertainment and military and government. A pick-up was noticeable towards the end of the year, particularly in the robotic camera support area, but I am cautious about drawing any

firm conclusions from such limited evidence. The broadcast rental market in the US stayed subdued for most of the year, and 2003 did not benefit from the major sports event contracts of 2002.

In contrast, I am delighted to report that our Photographic business enjoyed strong sales to the keen amateur segment, whilst sales to professional photographers were relatively stable. Volume was up significantly on the previous year, driven by new products targeted at capturing the growth in digital still and video imaging but with much of the volume going to the US, these volume gains were largely negated by the impact of the falling dollar.

Acquisitions and Disposals In February 2003, Vitec acquired OConnor Engineering, a leader in camera control heads for the film industry, and Radamec Broadcast Systems, a leader in automated robotic control systems. These businesses have been successfully integrated, with OConnor products now available worldwide through the Sachler sales channel. Radamec Broadcast production was transferred to Vinten in Bury St Edmunds. Radamec Broadcast enjoyed a particularly strong end to the year. Aspen, which was integrated into Anton/Bauer in 2002, generated sales growth of over 80% in 2003.

In January 2004 we announced the acquisition of Manfrotto's long-standing German distributor for €1.9 million. It, together with our existing trading companies in France, Italy and the US, will be renamed Bogen Imaging, establishing a better marketing platform to support our worldwide photographic dealers.

At the end of the year Vitec broke off discussions with EVS Broadcast Systems regarding the potential acquisition of that business. Due diligence and other costs of £0.9 million were written-off as an exceptional item.

In December we announced the sale of the Retail Display business, ALU, for £11.9m. Whilst revenue grew to £22.4 million during the year, profitability was affected by a charge of €3.0 million (£2.1 million) for upgrading retail units. ALU initially developed its business by successfully selling variants of existing Manfrotto products to clothing

Chairman's statement

2003 saw progress on a number of fronts as we continued to reshape the business and position it for future growth.

retailers. That overlap in product ranges is no longer so significant and the business was identified as non-core. I would like to thank Abramo Manfrotto, who has left with ALU, for his work at Vitec; sales by the Manfrotto business doubled in the years of his leadership.

Changes to the Board The Board has been strengthened by the appointment of Nigel Moore from 1 March 2004. Nigel spent most of his career at Ernst & Young and it is intended he will take over the Chairmanship of the Audit Committee in September. I am delighted to welcome him to the Board.

I have now served on the Board for eight years, with five of them as Chairman. It is therefore time to start planning for a successor. In order to allow for an appropriate handover period, we are currently undertaking a search process with a view to making an appointment during 2004.

I would like to thank all our employees worldwide, and my colleagues on the Board, for the dedication and skill they have shown during the year, one in which Vitec has made many steps forward in a difficult market.

2003 dividend and dividend policy The Board is recommending an unchanged final dividend for the year of 16.6p, giving a total dividend for the year of 22.7p.

The emphasis within the 'Consolidate-Leverage-Grow' strategy has so far been on consolidation and restructuring of the Group's activities; as the balance changes towards growth the Board believes it is important to ensure the company has the flexibility to pursue acquisitions. Accordingly the Board has decided to adjust its dividend policy to move, over a period of two to three years, towards an average dividend cover level of around 2 times.

Subject to there being no material adverse factors that may affect the Group's results in 2004, the Board intends to maintain the interim dividend for the financial year to December 2004 at 6.1p. The final dividend for that year will be set taking into account the policy outlined above and the outlook for 2005.

Whilst the Group's strategy is to enhance shareholder value by pursuing growth, whether organically or by acquisition, the Board recognises that if no suitable opportunities present themselves over the medium-term it will consider how best to return cash to shareholders.

Outlook 2003 was a year of considerable change for Vitec and we expect 2004 to benefit from the plant consolidation programme, largely completed last year, and from the new products launched recently. Our photographic market remains strong and continues to benefit from the uptake of digital cameras, however the broadcast market remains difficult. TV advertising in the US is now more buoyant than at any time during 2003, which should help our customers' confidence, although disappointing audience figures may continue to make advertisers cautious.

With half of Vitec's sales coming from the US, the present weakness of the dollar will have a negative effect on Vitec during 2004. Based on the euro, dollar and yen exchange rates governing at close of business on 26 February continuing throughout 2004, there would be an adverse transaction effect of some £2.4 million and an adverse translation effect of some £1.7 million, compared to 2003.



Alison Carnwath
Chairman

Clear-Com's Eclipse digital matrix intercom system is a leap forward in communications technology, blending the field-proven suite of Matrix Plus features with simple programming and a powerful new processing platform with dual redundant power supplies. An individual matrix can support up to 208 users.

As underscored in our Half Year Results statement, 2003 proved to be a challenging year, but one in which Vitec made significant steps forward on its 'Consolidate-Leverage-Grow' strategy.

This strategy involves taking out costs by exploiting our scale, improving our performance through better use of group-wide manufacturing and IT systems, and looking to generate growth by focusing our engineering and marketing resources on those areas where growth can be achieved. Solid progress has been made on all these fronts, although there is more to do.

Whilst we expect to show organic growth through the new product platforms and the improved distribution network, there remains an avenue for growth through acquisition in what is still a fragmented industry. With significant progress in manufacturing, division-wide IT systems and a management team focused on delivering growth, Vitec is now able to add value to acquired businesses in a way that it could not in the past.

Manufacturing restructuring delivered With our markets well below the peak of 2000, and with lower demand for the more complex studio infrastructure products, the high operational gearing within our Broadcast businesses was a handicap. The focus in 2003 was, therefore, on 'Consolidate-Leverage'. Lower cost manufacturing is vital to counter the effects of the ongoing trend to smaller cameras and tripods within the lightweight sector of the broadcast market. To drive manufacturing efficiencies we closed four plants and upgraded the facilities in Bury St Edmunds, UK and Cartago, Costa Rica (located in a local Zona Franca). We have taken the opportunity

to concentrate Bury St Edmunds on the more complex Broadcast products, with Cartago concentrating on higher volume lines. In Italy we have re-organised a number of manufacturing facilities and processes. Further simplification will be possible following the sale of ALU, allowing us to run the core facilities there more effectively. In addition, the entire Drake business also relocated from Welwyn Garden City to a better-suited site on the Research Park outside Cambridge, UK.

During the year the Photographic business rolled out a new integrated IT system to most of its main locations and the Broadcast Systems IT system was extended to the Cartago site and the Radamec Broadcast and Vinten Inc sales offices. These systems will greatly improve the information available to managers, and speed up decision-making and production planning. The integrated IT system within Broadcast Services is allowing them to better manage their rental assets, reducing the need for capital and giving better control over subrentals.

Taken together, the plant reorganisation and the IT implementations have inevitably been disruptive. These initiatives have been well managed and provide the cornerstones for Vitec's future.

Top line growth generated Whilst the emphasis was on 'Consolidate-Leverage' during 2003, considerable progress was also made in resuming top line growth. Despite a difficult market, revenue from continuing operations grew 3.6% during 2003: Broadcast Services was lower due to the non-repeat nature of the 2002 FIFA World Cup, but this was more than offset by increases in the other Divisions.

Chief executive's review

2003 proved to be a challenging year, but one in which Vitec made significant steps forward on its 'Consolidate-Leverage-Grow' strategy.

Photographic sales were up on the back of some successful product launches at the end of 2002 and throughout 2003, and Retail Display benefited from a large US order, albeit at lower margins than in the past. The lighting truss business, Litec, has seen growth from the adoption of its new temporary lighting gantry and roofing products. Bogen, the distribution arm, went from strength to strength in the US, with a number of exciting new lines, including Kata camera bags.

In Broadcast Systems, while the net growth came from the acquisitions, there was increased volume in lightweight camera support and useful sales increases at Anton/Bauer and Clear-Com, both US-based, and at Sachtler.

It was very pleasing that Vitec companies continued to pick up awards for innovative new products at the major tradeshow: Drake, Clear-Com, Vinten, Anton/Bauer and Bogen were all recognised for their technical leadership during 2003. These awards are not ends in themselves, but are encouraging pointers to future revenues as and when broadcast budgets revive. Drake was also successful in securing a number of significant intercoms orders for Air Traffic Control projects. The first of these was delivered in late 2003, and will be commissioned in early 2004, and we are learning more about the market from each one. As we won more orders than expected, R&D expense was increased to take advantage of these opportunities.

At the end of 2003 we opened a sales office for the Broadcast companies in Beijing to serve the local Chinese TV stations as they prepare for the Olympics in 2008.

The growth in high definition programming has been exploited by Bexel, who have provided equipment and technical support for several new TV shows.

Executive team The Executive Board has been joined by Joop Janssen and Francesco Bernardi. Joop, who took over the Broadcast Systems Division in June 2003, has spent most of his career in broadcast at Thompson and Philips in product development and business management roles. Following the sale of ALU, Francesco Bernardi was promoted to lead Gruppo Manfrotto, having been its Sales and Marketing Director. His background is in international marketing.

Bexel rents out complete HD systems for prime time sitcoms, movies, commercials and other "film-style" productions.

This HD camera is powered by an Anton/Bauer battery and controlled using an OConnor head - both Group products.

Photographic Products for professional photographers

	2003	2002
Turnover [†]	£83.9m	£77.0m
Photographic	£61.5m	£59.2m
Retail Display ^{***}	£22.4m	£17.8m
Operating profit ^{† **}	£13.9m	£15.4m
Photographic	£13.9m	£14.2m
Retail Display ^{***}	£0.0m	£1.2m
Operating margin [†]	16.6%	20.0%
Photographic	22.6%	23.9%
Retail Display ^{***}	0.0%	6.7%

[†] for the Photographic and Retail Display Division

^{**} before exceptional items of £nil (2002: £0.8 million) and goodwill amortisation of £0.1 million (2002: £0.1 million).

^{***} discontinued operation

Photographic continues to make good progress. The Photographic Division's best performing market in 2003 has been the US where Bogen achieved record sales. Europe did not match this performance and declines were registered in the key markets of Italy, France and Germany while many emerging countries in Asia struggled to recover from the SARS epidemic.

The new distribution strategy initiated last year led to the acquisition of the distribution end of Germany's Multiblitz, which will become part of Bogen Imaging, and the appointment of Daymen International in the UK.

2003 was another record year for Litec, which produced the highest growth in the Photographic Division, and Gitzo, which saw a double digit volume growth.

The cinema sector grew considerably this year, with Manfrotto and Avenger Lighting Supports products widely used throughout the film industry, notably in the production of blockbuster films such as Lord of the Rings, Peter Pan, Matrix Reloaded and Matrix Revolutions.

Marketing activities 2003 was a busy year for Manfrotto in terms of sponsorships and collaborations such as Land Of Africa, a humanitarian expedition from Switzerland to the Cape of Good Hope; the Toscana Photographic Workshop which ran photographic courses across Italy in which acclaimed photographers (including National Geographic and Magnum members) taught young and aspiring photographers how to get the most from their art; an Italian speleology expedition to Cuba; and "Den Första Svenska Dhaulagiri Expeditionen", the first Swedish expedition to the 8000m "White Mountain" in the Himalayas (the same expedition team then set out for the South Pole armed with Manfrotto photo and video equipment); and sponsorship of French aerial photographer Yann Arthus Bertrand.

New products In 2003, Manfrotto launched a broad range of new products in both the video and photographic sectors including the innovative, easy-to-use and ergonomic grip action ball photographic head; the extended "DIGI" compact tripod range, which attacks the amateur end of the market; the spherical panoramic head which generated a considerable amount of interest with the more specialised virtual reality end of the market and three new video camera remote pan bars for all types of user.

Gitzo introduced a selection of new products specifically targeted at the photographic market's growing trend for miniaturisation within the digital camera market, and levelling tripods aimed at flexible outdoor applications for nature and architecture photographers.

Bogen Imaging Inc is the exclusive US distributor of Kata photographic bags.

One of Gitzo's Mountaineer tripods performing well in extreme circumstances.

IFF launched the Line Shaft Hoist in 2003 aimed at the theatrical market.

Litec developed a smaller compact truss that works in combination with its revolutionary Libera system to create broad span structures and grid systems guaranteeing high load capacities with minimal column support. 2003 also saw the introduction of convenient truss transportation systems and the restyling of important existing products.

Other activities IFF was transferred from Florence to premises in Feltre, the heart of Gruppo Manfrotto's manufacturing area, and a number of the assembly factories were transformed into flow lines. The year ended with good order intake, resulting in a significant order book as the business enters 2004.

The new Divisional IT system, Movex, was fully rolled out in the US and in the manufacturing sites in Italy, representing a step change in the way the business is managed, with one system replacing six standalone systems.

Retail Display continued to develop in a difficult market, and has now been sold. In 2003 the retail display market continued to be soft, particularly in the US, where the total fixture industry shrank 6.5% between 2001 and 2003 and the first half of the year saw ten fixture companies go bankrupt or close factories. Although big box retailers took more share away from ALU's traditional customer base (specialty retailers and department stores), the Company was able to finally reverse a four year decline in the US market.

In Europe, modest improvements in key markets like Germany, the UK and Scandinavia were negatively offset by the slowdown with a major custom project, which had reached its peak in 2002 and is now phasing out. Whilst distribution in the Asia Pacific region is still weak, ALU won a very prestigious international program with a Hong Kong based cosmetic company.

New products launched (a completely new Autocube system and a renovated version of Box in December of 2002, and a new rail system called Acrobat in March of 2003) received very strong market response. Autopole, the traditional product, still performed very well in 2003, thanks to a particularly large order from Sears.

At the end of the year the disposal of the ALU business for £11.9 million was announced. Manfrotto will continue to provide administration and IT services to ALU on an arm's length basis, and a supply contract, principally for Autopole products, is also in place. I would like to thank all of the staff at ALU for their work for Vitec, and wish them well for the future.

The professionals' choice,
Gitzo provides the benchmark
for professional photographic
tripods and heads.

Broadcast systems Products and systems primarily for broadcast applications

	2003	2002
Turnover	£81.9m	£75.5m
Operating profit*	£3.9m	£8.4m
Operating margin	4.8%	11.1%

*before exceptional items of £1.9 million (2002: £5.0 million) and goodwill amortisation of £0.7 million (2002: £0.4 million).

With a choice of three matrix frame sizes, the capability to support up to 3,000 users and a wide selection of user panels and interfaces, Drake's 4000 Series II system is the choice of broadcast professionals all over the world.

Vinten's Pro Touch Pro-6 camera support system provides smooth control and movement through 360° of pan and +90° to -60° of tilt with continuously variable fluid drag. An illuminated level bubble is provided for convenient set up in low-light situations.

Product introductions have maintained revenue in a weak market. The two acquisitions in February broadened the product range; *cost reduction initiatives continued in a tough broadcast market.* The consolidation of manufacturing started to enhance profitability in the camera support product lines for Vinten and Sachtler in the fourth quarter.

Vinten continues to lead the industry in the design and supply of Studio and Outside broadcast products. 2003 saw a number of *substantial deliveries including Televisa's Chapultepec Newscenter studios* which selected a number of camera support systems for its studio, including Quartz pedestals complete with Vector 70 pan and tilt heads. A major station in Austria took delivery of a number of robotic heads and control systems, as well as manual heads and pedestals, whilst a television station in Durham North Carolina purchased a complete robotic camera automation system including three SP-2000XY full servo pedestals. A number of systems were also installed in food and shopping channels throughout the US.

Vinten equipment was also hired or purchased for a variety of major events around the world such as the Golf Masters, Downhill skiing, and extreme winter sports events in the US.

Vinten and Radamec Broadcast – the two leading Robotic camera control suppliers - joined forces to develop the broadcast robotics business, *creating synergy between the two operations.* The main focus was on manufacturing and product development to produce the best products at the highest quality level for the future. New products include the Series 200 controller and the exciting SE-500 Servo Elevation Unit, a remote controlled height positioning unit. Both products were designed to meet the diverse requirements of robotics in today's demanding TV environment. This year also saw *the launch of the Scenario XR – a virtual television production system* in which the virtual and real video world can be mixed seamlessly in real time.

Manual products continued to satisfy evolving market demands, not least the Pro-touch lightweight range now including the Pro-6 and Pro-10 systems. These provide both outstanding rigidity and *exceptional control for the latest range of professional DV camcorders.*

Vinten received a number of awards from trade magazines for exceptional product design at the NAB convention and the yearly Beijing broadcast show.

In 2003, alongside the cost reduction programme, Sachtler refocused *its sales and innovation resources to satisfy increasing customer demands,* with the OConnor acquisition offering an additional product range and new product development skills.

The product range was widened by the 75 kg fluid head, with video and film versions, and the 13 kg ENG head (Video 15) to serve lower camera weight demands. Furthermore, a low cost version of a fluid head for mini DV-cameras was introduced, *also incorporating the famous Sachtler fluid system.*

Sachtler's largest sales during 2003 were 100 sets of ENG-systems for Spanish TV, the complete ENG project for the African games, a studio lighting system contract in Japan won against local competitors, and other important studio lighting systems for Swiss and Austrian TV.

Sachtler broadened its customer base, especially in the US, where a considerable volume of products were sold in *non-broadcast applications.*

Anton/Bauer recorded its second highest sales year in 2003. It is building its worldwide market share, with significant progress being made in Europe, supported by the expansion of its regional sales and service office in the Netherlands.

Anton/Bauer continued its record of product innovation, winning industry awards and customer praise with the introduction of the STASIS power support system. This unique patented design combines both power and stable operation for small handheld mini-DV camcorder equipment.

The Aspen product line, acquired in 2002, was improved with the introduction of the Nexus battery system; this offers an innovative perpetual power feature for portable cameras. Aspen continues to be key to addressing the growing market segment of wedding and event videography.

Anton/Bauer also launched its Custom Power Systems (CPS) initiative in 2003 to leverage its battery and charging technology in other markets. The Company designed and manufactured a new power system for a leading wireless medical cart manufacturer, in addition to its longstanding business with a leading manufacturer of heart assist systems.

Clear-Com and Drake During 2003 both Clear-Com and Drake continued their high level of investment in R&D. Despite the sales growth since 2002, the benefits of the past years investment are not expected to be visible until later in 2004. The broadcast market remained weak, particularly in Europe, where both companies experienced low levels of market activity. In the US, Clear-Com benefited from a strong live performance market and the Company maintained its position as the leading supplier of intercoms to this market.

During the year Drake won a significant number of orders from the *air traffic control (ATC) authorities in China, Korea, Vietnam and Africa* for voice communications systems. Delivery of these systems commenced in late 2003, with commissioning of the first of them in early 2004.

Clear-Com received a PLASA award in November for CellCom, a unique patent pending digital wireless intercom. It also launched the *ECLIPSE digital matrix, which establishes new standards in performance and functionality.*

Customer support received a substantial boost in 2003 with the establishment of a '24x7' user support centre. The centre has been introduced to provide immediate response to customers in every time zone; it provides technical advice and assistance with troubleshooting, web based ordering and tracking of repairs and bespoke care plans for special cases.

Camera cranes are increasingly used to achieve extraordinary camera positioning. Although long established in the film industry, they are now being adopted by the world of television. That's why Sachtler's new CamCrane EFP is specially designed to meet field production needs.

Anton/Bauer's Stasis provides support for lightweight video cameras. The balancing counterweight, an Anton/Bauer battery, powers both the camera and the Anton/Bauer light.

Broadcast services Rental services and technical support mainly for the broadcast market

	2003	2002
Turnover	£27.0m	£29.5m
Operating profit*	£0.0m	£0.9m
Operating margin	0.0%	3.1%

*before goodwill amortisation of £0.5 million (2002: £0.4 million)
and impairment of goodwill of £2.1 million (2002: £nil)

Bexel's expertise at putting together complex equipment packages for high profile events has made them the leading rental company in the US.

Bexel editing suites have facilitated the smooth production of the last 10 Super Bowls.

Focus on control of rental assets has generated cash in a difficult market. Although Broadcast Services benefited from a continued upturn in market demand for several types of large scale and High Definition productions in 2003, it was impacted by generally weak ongoing trading conditions in the US broadcast industry. As a result, and without the recurrence of 2002's large Winter Olympic and World Cup contracts, the Division's turnover fell by 8%, and operating profit before exceptional items, goodwill amortisation and impairment charges dropped to break-even.

Capital expenditures, however, were tightly constrained, bringing the Division's pool of equipment much more in line with demand. Broadcast Services made increasing use of its integrated asset management system in 2003, which allowed for improved equipment utilisation and optimal usage of rentals from third parties. This discipline, coupled with tighter controls over working capital, enabled the Division to boost its operating cash flow to US\$7.0 million in 2003.

A more proactive sales effort, greater sales force training and a new customer relationship management system helped produce volume increases in several areas, despite the weak overall market demand.

The Division built customised High Definition (HD) portable broadcast equipment modules in 'road-ready' travel cases, and designed innovative audio and video production packages, to enhance its position in the rapidly growing HD broadcast market.

The Bexel brand's fibre-optic-based studio HD systems captured four prime-time series: *Grounded for Life*, which aired on the Warner Brothers Network, *Hope and Faith* on ABC, and *The Tracy Morgan Show* and *Whoopi* on NBC.

Bexel's nationwide network of offices allowed it to support long-term travelling series, such as *The Jamie Kennedy Experiment* for Tribune Entertainment. The Division also supported major North Atlantic Treaty Organisation and World Trade Organisation events with large custom-built audio/video systems. The nationwide network was also invaluable support for sporting event producers such as Turner Broadcasting, which used Bexel equipment packages to broadcast a selection of the week's best National Basketball Association games in many different cities.

Bexel's BBS unit supported the broadcasts of many world-class sporting events, including: *The Super Bowl*; the Kentucky Derby, Preakness and Belmont Stakes "triple crown" of US horse racing; the FIFA Women's World Championship; the US Open Tennis and Golf Championships; and HD broadcasts of premier National Football League and Major League Baseball games.

The Division also made significant inroads in the vibrant reality television sector. By combining its comprehensive inventory of audio and video equipment with expert product design and technical advice in both disciplines, the Division won several hit shows from entrenched competitors. Broadcast Services thus became the "one-stop" first choice for the producers of MTV's *The Osbournes* and *Newlyweds*, CBS' *Survivor*, NBC's *The Apprentice* (starring *Donald Trump*), and Fox's *Paradise Hotel*, *Casino* and *Forever Eden*.

The Division's sales units also scored major successes. Audio Specialties Group (ASG) was awarded a three-year contract to be the exclusive US distributor of innovative Radio Frequency products for HME, a leading broadcast audio manufacturer. ASG also introduced Drake's Digital Matrix Intercom System products to the US market. Bexel's Broadcast Video Gear unit increased its presence in the US used equipment sales arena and outperformed most of its competitors, especially late in the year, when it set all-time records for sales volume despite a generally adverse market.

Chief Executive

Continuing operations Turnover increased by £6.0 million (from £164.4 million to £170.4 million) or 3.6% in the year. Most of the underlying growth occurred in the Photographic Division. The broadcast and media industries remained depressed for most of the year, but Broadcast Systems benefited from a contribution of £5.9 million arising from the acquisition of Radamec Broadcast Systems and OConnor Engineering. Excluding acquisitions, sales growth was £4.8 million or 2.9%, but this was negated by the adverse effects of FX rates on translation, £1.2 million, and transaction £3.5 million.

Gross profit margins fell from 46.0% to 43.6% reflecting a poorer mix in a number of businesses and the adverse effect of FX transactions, particularly in the Photographic Division. Gross profits were £3.6 million lower than the prior year before a contribution of £2.2 million from acquisitions.

Net operating expenses before exceptional items of £1.9 million and goodwill amortisation and impairment charges of £3.4 million increased by £4.4 million to £56.6 million (£63.6 million in total, less £7.0 million for discontinued operations). £2.5 million of the increase related to acquired businesses. £1.2 million was due to an 18% increase in research, development and engineering costs and £2.0 million to increased investment in sales and marketing costs, offset by a £1.3 million benefit from foreign exchange translation.

Operating profits on continuing business before exceptional items and goodwill amortisation and impairment charges fell from £23.5 million to £17.8 million and operating profit margins were 10.4% compared to 14.3% in 2002. The year on year effect of translating overseas profits was £1.2 million favourable and the effect of exchange rate changes on transactions, principally the weaker dollar against the euro, was £2.3 million unfavourable after hedging.

As previously announced, the Group has taken operating exceptional charges of £1.9 million, comprising £1.0 million for the closure of Radamec Broadcast's manufacturing facility at Chertsey and £0.9 million costs relating to the unsuccessful acquisition of EVS Broadcast Equipment.

Discontinued operation and related exceptional item The sale of the Retail Display business on 30 December 2003, resulted in a loss on disposal, before tax, of £3.0 million after £1.0 million of divestment costs. The loss was after charging goodwill of £2.4 million, including £2.1 million previously written off to reserves. There was an associated tax credit of £4.1 million, which will significantly reduce the tax payable in Italy in 2004.

In the year to December, Retail Display's net turnover increased by 25.8% to £22.4 million (2002: £17.8 million), due principally, to a pick up in the US market, including a \$7.3 million (£4.5 million) order from Sears. Operating profit was £nil (2002: £1.2 million) as a total of €3.0 million (£2.1 million) had to be provided for the upgrade of retail units, an increase of €1.5 million (£1.0 million) over the amount announced and charged at the half year.

Goodwill amortisation and impairment The charge for goodwill amortisation and impairment was £3.4 million (2002: £0.9 million). This included £0.3 million attributable to 2003 acquisitions and an impairment charge of £2.1 million against the goodwill on the US Systems Wireless business.

Taxation The effective taxation rate on operating profit before exceptional items, goodwill amortisation and impairment has increased to 39.8% from 39.4% in 2002. The tax charge is relatively high because profits have arisen in high tax jurisdictions but the Group has incurred net losses in the UK on which it has not benefited from tax relief. In 2003, £0.3 million of the £6.4 million tax charge on ordinary activities represents deferred tax and is, therefore, a non-cash charge.

Cash flow and net debt Cash generation remained good despite the lower profits. Net debt decreased during the year by £1.5 million to £10.4 million as the cost of the two acquisitions (£6.4 million) and the cash costs of restructuring actions were more than offset by the sale of the Alu business (net cash effect £8.0 million).

Financial review

Turnover from continuing operations increased by £6.0 million (from £164.4 million to £170.4 million) or 3.6% in the year.

Net cash inflow from operating activities was £28.7 million (2002: £35.4 million), equating to 70p per share (2002: 86p per share). Cash flow from a reduction in working capital was £4.0 million (2002: £0.6 million). Capital expenditure and financial investments were £10.2 million (2002: £10.5 million), of which £2.8 million related to rental assets and £1.1 million to IT projects, partly financed by the proceeds from asset disposals of £2.4 million (2002: £3.9 million).

Working capital was increased by the effect of the two acquisitions but reduced by the divestment of the Retail Display business. Stocks increased by £2.7 million to £33.2 million, due principally to acquisitions and stock build associated with restructuring. Stock days increased to 126 (2002: 112) partly as a result of the disposal of the Retail Display business with its higher stock turn. Trade debtors were £0.3 million lower than last year with debtor days at 60 days (2002: 57 days). However, trade creditors at £15.0 million were £2.9 million higher than last year, largely reflecting the increased level of activity.

Tax paid in 2003 was £10.8 million, £4.2 million more than 2002, as 2003 included settlement of an historic tax claim of £1.4 million, whereas 2002 included the benefit of two tax rebates totalling some £2.4 million.

Treasury Policy Financing, currency hedging and tax planning are managed centrally. Hedging activities are designed to protect profits, not to speculate. Substantial changes to the financial structure of the Group or treasury practice are referred to the Board. During the year, the Board approved the use of option contracts for hedging foreign currency receipts.

As in previous years, a portion of the transactions of subsidiaries in foreign currencies is hedged 12 months forward. Forward foreign exchange contracts at 31 December 2003 totalled £16.0 million (2002: £27.0 million), after some £3.0 million worth were transferred with the divestment of Retail Display. In addition, the Group had simple option contracts, for the sale of dollars for euros

over the period August 2004 to June 2005 totalling £8.4 million. Translation of foreign currency profits and interest rates are not normally hedged. Foreign currency net assets are not hedged other than by normal Group borrowings.

The Group operates strict controls over all treasury transactions involving dual signatures and appropriate authorisation limits.

Financing Activities The average cost of borrowing for the year was 4.8% (2002: 5.2%). Net interest cover (using profit before exceptional items, goodwill amortisation and impairment) remained high at 10 times (2002: 15 times) despite the lower profits. The Group's three-year committed facilities expire in October 2005.

UK pensions The Group contributes to two UK defined-benefit pension schemes. At the end of the year the Group closed both schemes to new members, replacing them for 2004 onwards with a Group personal pension plan with Standard Life. As set out last year, based on an estimated funding deficit of £2.7 million as at December 2002, the Group increased its contributions to the schemes by £125,000 per annum in 2003 (some 20%). It is believed that this action, along with an improvement in financial conditions, will mitigate the shortfall over a number of years. A full triennial actuarial valuation is due as at 5 April 2004.

International Financial Reporting Standards The Group has carried out a preliminary review of the implications of the proposed international accounting standards that will come into force in 2005, but has not yet evaluated the likely financial effect.



Alastair Hewgill
Finance Director

Intercoms users have to reconfigure their systems as production needs change. Drake's intuitive new web-based software gives them this flexibility as well as remote diagnostics.

Board of directors

Alison Carnwath BA ACA

Chairman, non-executive, independent, British, aged 51, appointed to the Board on 22 January 1996; member of the Audit committee, the Nominations committee and the Remuneration committee. Currently a non-executive director of Gallaher Group plc, Friends Provident plc, Man Group plc and Glas Cymru Cyf.

Gareth Rhys Williams BSc MBA

Chief executive, British, aged 42, appointed to the Board on 23 November 2001. Previously Regional Managing Director, Central Europe, of BPB plc. Prior to this he held senior management positions with Rexam plc, responsible for their European film coating business, and for NFI Electronics. Following initial training in IT at STC, he joined Lucas in a production management role before doing his MBA at INSEAD. He is a chartered mechanical and electrical engineer.

Alastair Hewgill BSc ACMA

Finance director, British, aged 49, appointed to the Board on 14 May 2002. Previously he held senior finance positions within GKN plc over a period of 11 years, including Finance director of GKN Aerospace Division and Head of Corporate Finance for the group.

Manfrotto's 542ART Roadrunner is the fastest pro video tripod available today. It can be opened or closed in under 4 seconds, thanks to its innovative engineering.

David Bell MA

Non-executive, independent, British, aged 57, appointed to the Board on 12 March 1997; the senior independent director; member of the Audit committee, the Nominations committee and Chairman of the Remuneration committee. Currently, Chairman of the Financial Times Group, a director of Pearson plc, non-executive Chairman of the Windmill Partnership, Chairman of Common Purpose Europe and Chairman of Crisis, a charity for the homeless.

Nigel Moore FCA

Non-executive, independent, British, aged 59, appointed to the Board on 1 March 2004; Member of the Audit committee. Until recently, a London based partner of Ernst & Young for many years. Currently Chairman of TEG Environmental plc and a Trustee of the Butten Trust.

John Potter CEng MIEE AMBIM

Non-executive, independent, British, aged 60, appointed to the Board on 1 February 1999; Chairman of the Audit committee and member of the Nominations committee and the Remuneration committee. Formerly a director of the TI Group plc until his retirement at the end of 1998. Currently President and Chief executive officer of Oxford Automotive, Inc.

Will Wyatt CBE BA

Non-executive, independent, British, aged 62, appointed to the Board on 10 June 2002; member of the Audit committee and Chairman of the Nominations committee. Currently Chairman of Human Capital Limited, President of the Royal Television Society, Chairman of the London Institute, and Governor of Magdalen College School, Oxford. Formerly Chief Executive, BBC Broadcast. Other posts within the BBC included Managing Director of Network Television.

Directors' report

The directors present their report and the audited accounts of the Group for the year ended 31 December 2003.

Review of the Group and its activities

The performance and activities of the Group during the year are set out in the Chairman's statement, the Chief executive's review, the Financial review and the Group overview.

On 6 February 2003 the Group acquired the business of OConnor Engineering Laboratories from Autocue Inc for US\$2.7 million (£1.6 million) cash.

On 18 February 2003 the Group acquired the shares of Radamec Broadcast Systems Limited in the UK, and acquired the operating assets and some of the liabilities of Radamec Inc in the USA, from Radamec Group PLC for £4.8 million in cash.

On 30 December 2003 the Group disposed of its retail display business operating under the ALU name for a consideration of £10.2 million and acquired that part of a property in Bassano del Grappa, Italy that it did not own for a consideration of £0.55 million plus any attributable Italian VAT.

Results and dividends

The Group's profit on ordinary activities before tax, exceptional items, goodwill amortisation and impairment amounted to £16.1 million (2002: £23.1 million). Profit on ordinary activities before tax but after exceptional items, goodwill amortisation and impairment amounted to £7.8 million (2002: £16.6 million).

The directors recommend a final dividend of 16.6p per share (2002: 16.6p). If approved, the dividend per share for the year will total 22.7p (2002: 22.7p). Subject to approval by shareholders, the final dividend will be paid on 20 May 2004 to shareholders on the register on 23 April 2004.

Post balance sheet events

On 8 January 2004 the Group acquired the assets of the domestic distribution arm of Multiblitz for €1.9 million (£1.3 million) cash. Multiblitz is one of Manfrotto's longstanding distributors.

Future development

The Group's continuing strategy is to grow its businesses through organic expansion and carefully planned acquisitions principally in areas related to its existing businesses, customers, markets and skills.

Research, development and engineering

The management of the Group recognises that new products are essential to its long-term success and considerable emphasis is placed on active product development programmes in the manufacturing companies. In 2003 those companies spent £8.8 million (2002: £7.5 million) on research, development and engineering.

Share capital

Details of shares issued during the year are set out in note 22 to the accounts on page 64. An analysis of shareholdings is shown on page 72. The middle market price of a share of the Company on 31 December 2003, the last day of dealing in 2003, together with the range during the year, is also shown on page 72.

Substantial shareholdings

As at 29 February 2004, the Company had been notified of the following interests of 3% or more of its issued share capital:

Interest by	Number of shares	%
Baring Trustees (Guernsey) Ltd	2,698,374	6.58
Manfrotto SA	2,478,374	6.05
Prudential plc	1,760,031	4.28
Post Office Pensions Trustees Limited and Possfund Custodian Trustee Limited	1,719,537	4.19
Harris Associates L.P.	1,687,184	4.11
Legal & General Investment Management Limited	1,645,736	4.01
Aviva Plc	1,623,127	3.96
Britel Fund Trustees	1,258,630	3.07
Hermes Focus Asset Management Limited and Hermes Investment Management Limited	1,256,234	3.06

Directors

The directors during the whole of the year were Alison Carnwath (Chairman), David Bell, Alastair Hewgill, John Potter, Gareth Rhys Williams and Will Wyatt.

The remuneration of the directors is set out in the Remuneration report on pages 23 to 29.

Photographs and biographies of the current directors are set out on pages 18 and 19.

Directors' shareholdings

The following table sets out the beneficial interests of those persons who were directors at the end of the financial year. The interests in the Company's shares are shown as at 31 December 2003 and 1 January 2003 or subsequent date of appointment. Details of the directors' other interests in the Company's shares are set out in the Remuneration report on pages 23 to 29.

Directors' shareholdings	31 December 2003	1 January 2003 or subsequent date of appointment
Chairman		
Alison Carnwath	35,000	35,000
Executive Directors		
Gareth Rhys Williams	10,000	10,000
Alastair Hewgill	6,000	6,000
Non-executive Directors		
David Bell	-	-
John Potter	3,000	3,000
Will Wyatt	675	-
	54,675	54,000

Payments to suppliers

It continues to be the Group's policy that the Company and individual subsidiary companies are responsible for negotiating terms and conditions under which suppliers operate. Once agreed, payments to suppliers are made in accordance with those terms and conditions, subject always to the supplier having complied with them. That policy will continue for the financial year ending 31 December 2004. For the financial year ended 31 December 2003 the Company paid its suppliers on average within 15 days (2002: 15 days) of date of invoice.

Committees of the Board

Details of the Audit committee, the Nominations committee and the Remuneration committee are contained in the Corporate governance section of this annual report and in the Remuneration report.

Directors' report continued

Corporate social responsibility report

The Group's report on social, environmental and ethical matters is set out on pages 30 to 32. The Group has policies in respect of the following key areas: risk and fraud, employment (including employees and employee communication), whistleblowing, environment, human rights, community impact and involvement, relationships with suppliers, customers and other stakeholders.

Donations

During 2002, the Company made a contribution of £23,271 to its account with Charities Aid Foundation. In 2003, the Company made no contribution to that account because it was considered to be adequately funded. Charitable donations were made by the Charity committee from that account during 2003 totalling £7,000 (2002: £6,998). No donations were made to any political party. For further information on donations refer to the section on Community impact and involvement set out in the Corporate social responsibility report on pages 30 to 32.

Annual general meeting

The annual general meeting for 2004 will be held on Tuesday 4 May 2004 at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. The notice of meeting and a proxy card are enclosed.

The Company will again be making use of the electronic voting facility provided by its registrars, Capita Registrars. For further information please refer to the section in Shareholder enquiries and electronic voting set out on page 72.

The business of the annual general meeting will include the consideration by shareholders of the report and accounts for the year ended 31 December 2003, the Remuneration report, the proposed dividend, election of a director, the re-election of the auditor and the following further items of business.

The directors' authority under Section 80 of the Companies Act 1985 to allot unissued shares in the Company will expire on 28 April 2004. Shareholders' approval will be sought for the renewal of this power for a further five years.

A resolution renewing the directors' authority to allot shares for cash, as if the pre-emption provisions of Section 89 of the Companies Act 1985 did not apply, is set out in the notice of meeting. The first part of the resolution deals with the allotment of shares for cash under a rights issue, giving power to make adjustments to deal with overseas

shareholders, fractions of shares and similar matters. The second part renews the power of the directors to allot shares for cash, limited to 5% of the issued share capital at 1 March 2004. The authority will expire at the end of the Company's next annual general meeting or, if earlier, on 4 August 2005. Your directors have no present intention of issuing or granting rights over the unissued share capital, except in relation to the Company's adopted employee share incentive arrangements and no share issue will be made which will effectively alter the control of the Company without prior approval of the shareholders in general meeting.

Any shares held in treasury and used by the Company for the purposes of or pursuant to the employee share schemes operated by the Company will, so long as required under institutional guidelines, count towards the limits on the number of new shares that may be issued under the rules of such employee share schemes.

A resolution for a general authority for the Company to make market purchases of its own shares was first passed at the annual general meeting in 1998 and renewed by shareholders at subsequent annual general meetings. The directors believe it is desirable to have the power to make market purchases in the event of suitable opportunities arising. Accordingly, a resolution to again renew the authority will be proposed at the annual general meeting. The authority to purchase shares would only be exercised if there was a resultant increase in earnings per share, and it would be in the best interests of the Company. Should the directors exercise such authority, any shares so purchased may be placed in treasury in accordance with The Companies (Acquisition of Own Shares)(Treasury Shares) Regulations 2003, as amended and subsequently cancelled or transferred to satisfy awards arising under the Company's employee share schemes or issued for cash as provided for by the Regulations.

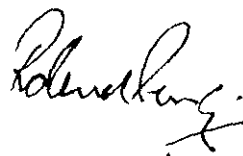
The Chairmen of the Board and of its committees will be in attendance at the annual general meeting to answer questions from shareholders.

Auditor

The auditor, KPMG Audit Plc, is willing to continue in office. A resolution will be put to the annual general meeting to re-appoint the auditor and to authorise the Board to agree the auditor's remuneration.

By order of the Board

Roland Peate
Secretary
1 March 2004



Remuneration report

This report contains the information required under the revised Combined Code and under the Directors' Remuneration Report Regulations 2002. A resolution to approve the report will be proposed at the 2004 annual general meeting. The Chairman of the Remuneration committee will be available to answer questions about directors' remuneration at the annual general meeting.

Remuneration committee

At the commencement of 2003, the Remuneration committee comprised David Bell (Chairman of the Committee), Alison Carnwath, John Potter and Will Wyatt, being all of the independent non-executive directors. On 4 March 2003, the membership of the Committee was reviewed and reconstituted to comply with the recommendation in the Higgs Report into the role and effectiveness of non-executive directors that no one director should sit on all three principal board committees. The result of that review was that, with effect from 4 March 2003, the Remuneration committee comprised David Bell (Chairman of the Committee), Alison Carnwath and John Potter.

On 18 December 2003, the terms of reference of the Committee were reviewed and updated to comply with the revised Combined Code. Under its terms of reference, the Committee, on behalf of the Board, determines the remuneration packages including bonus arrangements, participation in incentive schemes, pension contributions and all other benefits received by the executive directors. In the event of the termination of employment of those directors, the Committee would also determine any compensation payments, after taking appropriate legal advice. The Committee also makes recommendations to the Board, within its terms of reference, on the framework of senior executive remuneration including terms of service, pay structure, bonus and share incentive arrangements and other benefits.

The Chief Executive, Gareth Rhys Williams, attends meetings by invitation of the Committee except when his remuneration is being considered. The remuneration of the non-executive directors is determined by the Board as a whole with the relevant non-executive director abstaining when his or her remuneration is considered.

Remuneration policy

The executive directors' remuneration comprises a basic salary plus company and/or individual performance-related elements of up to 100% of salary. Therefore, if they achieve maximum performance in relation to the performance-related elements of their remuneration, these elements will account for 50% of their total remuneration.

Remuneration packages are formulated to attract, retain and motivate executive directors and senior executives of the quality required, without being excessive, by reference to salary and benefit surveys supplied by external sources. They take into account the responsibilities involved, remuneration packages in comparable companies that have similar international operations, relative performance and both internal and external advice. Remuneration and benefits reflect responsibility and market comparisons.

The notice period by the Company under the service contracts of the executive directors is 12 months. The normal retirement age of executive directors is 60. Basic salary is fully pensioned on a funded basis. Executive directors' service contracts do not provide for pre-determined amounts of compensation in the event of early termination by the Company. The Committee's policy in the event of early termination of employment is to mitigate compensation to the fullest extent practicable.

The Committee believes that in certain specific circumstances it is beneficial for an executive director to be encouraged to take up external non-executive appointments. Remuneration received by a director in respect of such external appointments would be retained by the director.

The Committee currently has no intention of amending the above stated policy for 2004 and future years, although it will be reviewed from time to time.

When reviewing and determining executive and non-executive directors' remuneration, advice is sought and received from external remuneration and benefit consultants and their various

Remuneration report continued

surveys of remuneration and fees and also internally from the Chief executive, Gareth Rhys Williams, and the Company secretary, Roland Peate. Towers Perrin, which was formally appointed in early 2003, has, during the year, provided independent advice to the Committee. In December 2003, the Committee received external and internal advice on the salaries of the executive directors and of the senior management team.

Chairman and the other non-executive directors

The Chairman and the other non-executive directors do not have service contracts but have letters of appointment. The initial period of their appointments is normally three years and may, by mutual consent and with the approval of the Nominations committee and the Board, be extended for a further three years. In exceptional circumstances appointments may be extended beyond six years, by mutual consent and with the approval of the Nominations committee and the Board, if it is in the interests of the Group to do so.

Executive directors

Executive directors' remuneration comprises basic salary, bonus, share incentives, company vehicle or cash allowance, fuel where a company vehicle is provided, medical health insurance, membership of the Group's Executive Pension Scheme, life assurance and additionally, for Gareth Rhys Williams, contributions towards a permanent health arrangement and contributions paid by the Company to a funded unapproved retirement benefits scheme.

It is the Company's policy to make provision for pensions for executive directors in respect of their basic salaries (but not in respect of annual bonuses or benefits) through funded retirement benefit schemes. Up to the maximum salary level permitted by Inland Revenue rules (the earnings cap), retirement benefits are provided through an approved retirement benefit scheme, as shown in the table entitled Pensions related remuneration.

Gareth Rhys Williams, Chief executive, aged 42, is employed under a service contract dated 23 November 2001. The notice period by the Company under his contract is 12 months; notice by the employee is 6 months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to twelve months' gross basic salary together with the gross value of the other benefits that he is entitled to receive under his service contract, but excluding pension contributions and any bonus. The bonus arrangements for 2004 will be calculated on the basis that 100% relate to the achievement of operating profit targets. The unexpired term of Gareth Rhys Williams' service contract, to his normal retirement date, is 18 years.

Alastair Hewgill, Finance director, aged 49, is employed under a service contract dated 17 April 2002. The notice period by the Company under his contract is 12 months; notice by the employee is 6 months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to twelve months' gross basic salary together with the gross value of the other benefits that he is entitled to receive under his service contract, but excluding pension contributions and any bonus. The bonus arrangements for 2004 will be calculated on the basis that 100% relate to the achievement of operating profit targets. The unexpired term of Alastair Hewgill's contract, to his normal retirement date, is 11 years.

Incentive arrangements

The current policy of the Remuneration committee is to make annual awards under the Long Term Incentive Plan to the executive directors and the other members of the Executive Board and grants of conventional share options to the Group's senior management immediately below the level of the Executive Board. Such awards and grants are based on a proportion of salary. Participation in the Deferred Bonus Plan is open to those employees who are members of the Group's bonus scheme and who receive a bonus. There are currently no plans to make any further grants under the Premium Option Plan. Invitations under the Group's Sharesave arrangements are usually made annually. This policy is reviewed at least annually and may be revised from time to time. Such awards and grants take into account the overall and flow limits advised by the Association of British Insurers.

To align the rewards of executive directors and other senior employees more closely with the objectives and interests of shareholders, the performance conditions applicable to the Group's share option schemes and the Long Term Incentive Plan are as set out below and relate to increases in earnings per share over a performance period. The performance condition applicable to the Premium Option Plan is also shown below and relates to a significant increase in the Company's share price. There is no re-testing of performance in respect of grants or awards. Monitoring and measuring of the performance conditions take place at the end of each year when the Company's results have been audited and again at the time of exercise of options and awards.

The Group currently has the following incentive schemes and plans in place under which incentives may be granted:

2002 Executive share option scheme. This is an Inland Revenue approved scheme. Executive directors and other senior employees are selected to receive options over shares. Exercise of an option is subject to growth in the Company's earnings per share, excluding exceptional or extraordinary items, exceeding the growth in the retail prices index over a performance period. The percentage growth over the retail prices index determines the proportion of the award that may be exercised. Options are exercisable between the third and the tenth anniversaries of their dates of grant.

Performance condition: If the percentage growth in the adjusted earnings per share of the Company exceeds the percentage growth in the retail prices index over the 3 year performance period by 3.0301% (the base target threshold), an option will become exercisable in respect of one-third of the shares over which it is held. Full vesting takes place when such growth over the performance period is 9.2727% or greater. A sliding scale operates for performance between the lower and upper thresholds. Options lapse if the base target threshold is not achieved. There is no re-testing of performance.

2002 Unapproved executive share option scheme. Executive directors and other senior employees are selected to receive options over shares. As with the 2002 Executive share option scheme, exercise of an option is subject to growth in the Company's earnings per share, excluding exceptional or extraordinary items, exceeding the growth in the retail prices index over a performance period. Options are exercisable between the third and the tenth anniversaries of their dates of grant.

Performance condition: The performance condition is identical in all respects to the performance condition of the 2002 Executive share option scheme set out above. There is no re-testing of performance.

Long term incentive plan. Under this plan, executive directors and other senior employees are selected to receive awards over shares that vest in whole or in part depending on the satisfaction of a performance condition related to the growth in earnings per share compared to the retail prices index over a performance period.

Performance condition: The performance condition attaching to awards under the plan relate to increase in earnings per share. For an award to vest in its entirety, the increase in earnings per share over the performance period of 3 years must be not less than the increase in the retail prices index plus 36% or more. For an award to vest at its lowest level of 25%, the growth in earnings per share over the performance period must be equal to the increase in the retail prices index plus 9%. Awards lapse if the performance is below 9%. Where growth is between 9% and 36% awards are realisable on a straight-line basis.

Premium option plan. Under this plan, selected executive directors and other senior employees receive options over shares that are granted in the form of two tiers. The exercise price of the first tier is set at 25% in excess of the share price immediately prior to the date of grant; the exercise price of the second tier is set at 50% in excess of that same share price.

Performance condition: First tier options are only exercisable if the average middle market price of the Company's shares increases to, and remains in excess of, the option exercise price for a minimum of 20 consecutive dealing days within three years of the date of grant. Second tier options are only exercisable if the average middle market price of the Company's shares increases to, and remains in excess of, the option exercise price for a minimum of 20 consecutive dealing days within five years of the date of grant. Each tier of options lapses if the share price does not achieve the required threshold within the relevant performance period. Subject to the share price reaching the required threshold, options are exercisable between the third and the tenth anniversaries of their dates of grant.

Deferred bonus plan. Under the plan, an eligible executive may defer between 10% and 50% of his cash bonus in exchange for receiving an award over shares in the Company with a value equivalent, at the date of award, to the amount of the deferred bonus. An award may, in normal circumstances, be exercised by a participant after 2 years. However, if exercise is deferred until after 3 years and the executive remains employed by the Group, the participant is entitled to receive additional shares equal in number to those comprised in the award.

Performance conditions: Bonuses received by participants, and which may be deferred under the plan, are themselves subject to demanding performance conditions linked to Company and/or individual performance. The awards under the plan are not subject to any further performance targets.

2002 Sharesave scheme and International plan. The Group also operates a Savings related share option scheme in the UK and a similar International plan in respect of overseas employees in certain countries. The scheme and plan are open to all the Group's employees in those geographical areas who have the necessary length of service. Under the scheme and plan participants contract to save a set amount each month in return for which they receive an option over a specified number of shares. At the end of the savings period participants may exercise their options to buy shares in the Company using their savings. Exercise is not subject to any performance condition.

Remuneration report continued

Five-year share price performance 1999-2003

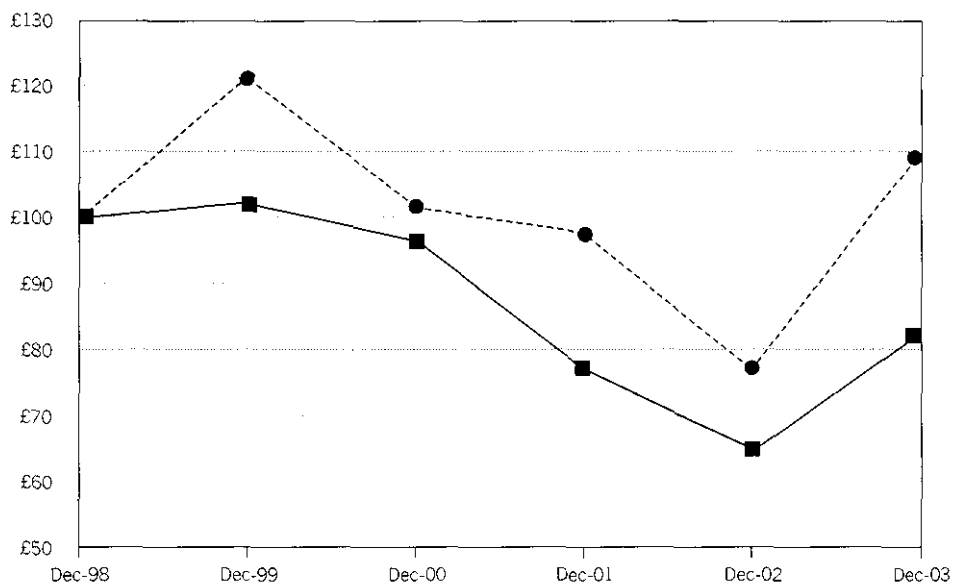
Under the requirements of the Directors' Remuneration Report Regulations 2002, the Company is required to include a graph showing the Company's performance compared to an appropriate index. Set out below, the graph illustrates the Company's annual Total Shareholder Return (share price growth plus dividends that have been declared, paid and reinvested in the Company's shares) relative to the FTSE Engineering and Machinery Index for the five year period 1999-2003, assuming an investment of £100. The Engineering and Machinery Index is the broad market index that includes the Company and comprises comparable companies.

Five-year historical shareholder return performance. Change in the value of a hypothetical £100 holding over five years.

FTSE Engineering and Machinery Index comparison based on 30 trading day average values

FTSE Engineering & Machinery Index

Vitec Group plc



The following information has been audited.

Directors' emoluments and compensation

For her non-executive duties, the Chairman, Alison Carnwath, currently receives a fee of £78,000 per annum. The non-executive directors each receives a fee of £25,000 per annum. The chairmen of the Remuneration committee and of the Audit committee, David Bell and John Potter, respectively, receive an additional £2,500 per annum fee for their services as chairmen of those committees. The Chairman is a member of the Group's medical insurance scheme, the premiums for which are paid by the Company. The non-executive directors do not receive any other benefits from the Company.

Gareth Rhys Williams, Chief executive, currently receives an annual salary of £267,800, increased from £260,000 with effect from 1 January 2004. Mr Rhys Williams is a member of the Vitec Group Executive Pension Scheme and contributes 7% of his salary up to the earnings cap. That pension scheme is a defined benefit scheme, the accrual rate for which is one fortieth of his pensionable salary for each year of pensionable service. In accordance with his service contract, the Company makes contributions of 24% of his annual salary in excess of the earnings cap to his funded unapproved retirement benefits scheme.

In addition, a guaranteed pension-related bonus of 16% of his annual salary in excess of the earnings cap is paid to him. He is eligible for a performance-related bonus, based on Company and/or individual performance, of up to 100% of base salary each year. In respect of 2003, 50% of the bonus was conditional upon the Group's performance and 50% was based on personal performance targets. Mr Rhys Williams received a bonus of £100,000 in respect of 2002 and of £52,000 for 2003.

Alastair Hewgill, Finance director, currently receives an annual salary of £180,000, increased from £155,000 with effect from 1 January 2004. Mr Hewgill is a member of the Vitec Group Executive Pension Scheme and contributes 7% of his salary. That pension scheme is a defined benefit scheme, the accrual rate for which is one fortieth of his pensionable salary for each year of pensionable service. Mr Hewgill is eligible for a performance-related bonus, based on Company and/or individual performance, of up to 100% of annual salary each year. In respect of 2002 he was awarded a discretionary bonus of £27,000 and for 2003 his bonus was £31,000.

Details of the directors' emoluments and compensation for 2003 with comparatives for 2002 are set out in the table below:

Director's name	Salaries and fees		Benefits (Note 1)		Performance related annual bonus		Pension related bonus (Note 2)		Termination payments (Note 3)		Total	
	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £
Chairman												
Alison Carnwath	78,000	75,000	428	468	-	-	-	-	-	-	78,428	75,468
Executive directors												
Gareth Rhys Williams	260,000	250,000	21,198	20,884	52,000	100,000	25,835	24,523	-	-	359,033	395,407
Alastair Hewgill	155,000	94,828	11,068	4,335	31,000	27,000	-	-	-	-	197,068	126,163
Richard Green	-	58,810	-	4,891	-	-	-	-	-	323,862	-	387,563
Non-executive directors												
David Bell	27,500	26,250	-	-	-	-	-	-	-	-	27,500	26,250
John Potter	27,500	26,250	-	-	-	-	-	-	-	-	27,500	26,250
Michael Stacey	-	19,200	-	-	-	-	-	-	-	-	-	19,200
Will Wyatt	25,000	14,041	-	-	-	-	-	-	-	-	25,000	14,041
	573,000	564,379	32,694	30,578	83,000	127,000	25,835	24,523	-	323,862	714,529	1,070,342

Notes

1. The principal benefits are a company car, fuel, medical insurance and life assurance. In respect of Gareth Rhys Williams only, a cash payment of £1,200 per month in lieu of a company car and a contribution of £400 per month to a permanent health arrangement are included in the figures shown for benefits.

2. Gareth Rhys Williams receives a pension-related bonus calculated at 16% of his annual salary in excess of the pensions earnings cap.

3. Information on the termination payment in 2002 is set out below.

During the year the highest paid director was Gareth Rhys Williams who received £359,033 (2002: £395,407 (excluding the termination payment made to a director during 2002)).

When termination payments are included, the highest paid director in 2002 was Richard Green who received a total of £431,188 (£387,563 shown in the table above plus a gain of £43,625 on the exercise of a share option). That total included payments in lieu of

salary, bonus, company car benefit, pension-related bonus and contributions to Mr Green's FURBS and represented the Company's mitigated liability, shortened to 15 months, under his service contract. In addition, £5,340 was paid direct to Mr Green's legal adviser in respect of advice he received in connection with the negotiation of his termination arrangements. Mr Green resigned as a director on 13 May 2002.

Remuneration report continued

Directors' share options

	Date of grant	At 1 January 2003	Options exercised or lapsed during year	Options granted during year	At 31 December 2003 or, if earlier, date of resignation as a director	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
Gareth Rhys Williams									
Executive share options									
1996 Unapproved	Sep 2002	142,857	–	–	142,857	350	–	Sep 2005	Sep 2012
SAYE options	Nov 2002	2,451	–	–	2,451	268	–	Jan 2008	Jun 2008
	May 2003	–	–	4,266	4,266	231	–	Jun 2008	Dec 2008
Alastair Hewgill									
SAYE options	May 2003	–	–	7,110	7,110	231	–	Jun 2008	Dec 2008
		145,308	–	11,376	156,684		–		

Notes

1. In November 2001, a share price related cash bonus scheme was adopted under which an award equivalent to an option over 142,857 shares, at a price of £3.50 per share, was made to Gareth Rhys Williams. This was replaced on 19 September 2002 by an equivalent option over 142,857 shares at the same exercise price of £3.50 per share under the Rules of the (1996) Unapproved Executive Share Option Scheme, the Scheme used as the comparable for the cash bonus scheme. There is a transitional arrangement for the cash bonus scheme to run in tandem with the share option. If, and to the extent that, the cash bonus is not triggered by Mr Rhys Williams prior to the first occasion upon which he becomes entitled to exercise the share option granted on 19 September 2002, the cash bonus scheme will lapse and will be replaced by the share option.

2. Non-executive directors are not eligible to participate in the Company's share option or share incentive schemes and consequently they do not hold any share options or other share incentives.

3. The total gain on the exercise of options by the directors during 2003 was nil (2002: £43,625) as no options were exercised.

4. The share price at the end of the year and the highest and lowest prices during the year are shown on page 72.

Directors' long term incentives

Awards under the Long term incentive plan	Date of award	Market price of a share at the date of award (pence)	Awards at 1 January 2003 (shares)	Awards exercised or lapsed during the year (shares)	Awards made during the year (shares)	At 31 December 2003 or date of resignation as a director (shares)
Gareth Rhys Williams	Mar 2002	442.5	28,248	–	–	28,248
	Mar 2003	257.5	–	–	50,485	50,485
Alastair Hewgill	Sep 2002	342.5	21,898	–	–	21,898
	Mar 2003	257.5	–	–	30,097	30,097

Awards under the Deferred bonus plan

	Date of award	Market price of a share at the date of award (pence)	Awards at 1 January 2003 (shares)	Awards exercised or lapsed during the year (shares)	Awards made during the year (shares)	At 31 December 2003 or date of resignation as a director (shares)
Gareth Rhys Williams	Jun 2003	345	-	-	7,705 Basic	7,705
	Jun 2003	345	-	-	13,755 Matching	13,755
Alastair Hewgill	Jun 2003	345	-	-	1,651 Basic	1,651
	Jun 2003	345	-	-	2,947 Matching	2,947

Pensions related remuneration

	Accrued pension at 31 December		Increase in accrued pension (in excess of price inflation) during		Member contributions towards pension		Transfer value of the increase in accrued pension net of member contributions		Transfer value of accrued pension at 31 December		Increase in transfer value over year to 31 December net of member contributions
	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £
Gareth Rhys Williams	5,156	2,633	2,478	2,434	6,899	6,773	9,058	7,196	33,874	15,444	11,531
Richard Green	-	25,110	-	1,657	-	3,400	-	10,904	-	274,858	-
Alastair Hewgill	5,225	1,890	3,303	1,890	10,763	6,125	20,458	9,802	50,321	16,234	23,324

Beyond the earnings cap, the cost of pensions comprised defined contribution payments to FURBS as follows: Gareth Rhys Williams £38,748 (2002: £36,780). Richard Green left the company on 30 June 2002 and therefore no payments have been made during 2003 to his FURBS. For the period from 1 January 2002 to the date of his leaving on 30 June 2002 contributions totalled £8,548.

By order of the Board

Roland Peate
Secretary
1 March 2004



Corporate social responsibility report

Last year the Group published its first detailed corporate social responsibility report although it has been including an environmental policy statement in its annual report for some years. This year the Group has developed further its social responsibility awareness and internal reporting of statistics. We plan to continue development, and the inclusion of an environmental report, in the future.

The Group has for many years taken a caring and considerate approach to social, environmental and ethical matters throughout its operations worldwide and this will continue. The Group regards compliance with all relevant laws and guidelines as important and socially responsible.

The Group's current system of risk management and control, which includes social responsibility matters, is led by the heads of each of the Group's operations. Those people are responsible at local level for complying with the relevant environmental regulations in all the geographical areas in which they operate. They report to the Board on such issues through the Group's Finance director, who has ultimate responsibility for such matters, as part of the Group's system of internal control and risk management reporting.

Overall the Group continues to believe that it has limited environmental impact. However, we recognise that we have a responsibility to understand the impact that our activities might have at local, national and global level. These have been monitored and assessed locally and solutions have been implemented as appropriate according to best practice, local legal and other requirements. However, we have now developed and implemented a more consistent approach to adopt sound policies throughout all our operations. As part of the implementation programme, we have put in place more formal systems and procedures for identifying, measuring, reviewing and reporting on social, environmental and ethical matters. Group policies are in place in the key areas of employment, environment, human rights, community impact and involvement and relationships with suppliers, customers and other stakeholders. These policies have been implemented at the centre and within each operating entity. Specific responsibility for such matters has been assigned to designated employees. Reviews by local management take place at each Group location and reports are made of the major risks in these areas. These reports identify risks, the current measures being taken to control them and the steps being taken to eradicate or minimise their effect in the future. The compilation of statistics commenced last year and they are being used to monitor improvements and for reporting purposes.

1. Employment

Policy

To comply with all relevant legislation and codes of practice relating to employment, health and safety and equal opportunities. To provide good quality working environments & facilities for employees and training and development appropriate to each of their roles; not to discriminate in any way; to take a flexible approach towards family responsibilities to assist them in establishing an appropriate work/life balance; to provide a competitive range of quality employee benefits. To keep the workforce informed of major events and developments within the Group.

Actions

Employment policies throughout the Group already reflect the policy set out above.

We continue to recognise the importance of involvement, motivation, training and development of our employees at all levels. The importance of good communication and working relationships is actively encouraged. During 2003 the Group's website was re-written and significantly enhanced. It now provides much more useful information and includes a gallery containing photographs of Group products. This helps investors, potential investors and employees alike to understand and view the wide variety of products available from Group companies.

Our policy is to keep employees informed on matters relating to their employment and on financial and economic factors affecting the Group through management briefings, via the Group's website and by internal distribution of press releases and internal announcements. This enables our employees to gain a better understanding of our business objectives and their roles in achieving them. Building and developing the skills, competencies, motivation and teamwork of our people is key to achieving our business objectives and to ensuring best practices throughout the Group.

The senior executives of the Group, including the Chief executive and the Finance director, meet on a regular basis. In addition, the managements of the operating units employ a wide variety of consultation and briefing methods, including conferences, joint committees, specific project teams and briefing groups.

The Group operates in many countries and our employment policies, which are designed to meet local conditions and requirements, are established on the basis of the best practices in

each country in which we operate. The Group's wide geographical spread provides some opportunities for employees to work either short term or on secondment for longer periods of time at the Group's various locations.

Encouragement is given to all employees both in the UK and overseas to participate in the Group's savings related share option schemes under which options are granted to employees who enter into contracts to save agreed amounts each month. Invitations under the UK and the International schemes have been made each year since the schemes were first introduced in 1984.

Ability and aptitude are the determining factors in the selection, training, career development and promotion of all employees. If an employee becomes disabled during his or her period of employment, we will, if necessary and to the extent possible, adapt the work environment to enable the employee to continue in his or her current position or retrain the employee for duties suited to that employee's abilities following disablement. It continues to be the Group's policy to consider applications for employment from disabled people on the same basis as other potential employees.

Health and safety

Health and safety training is part of the induction process for new employees. Specific training is given, where relevant, for forklift truck, crane and hoist operation and bottle gas usage as well as fire safety and first aid training.

Risk assessments were introduced during 2003 in various parts of the Group and these are being phased into the other parts of the Group. Assessments are being carried out on a regular basis and also when new equipment or machinery is acquired or new processes are introduced.

During 2003 the recording and reporting of accidents and related lost time statistics has become formalised. The figures are reviewed monthly and at each meeting of the Executive Board.

Workplace injuries and fatalities in 2003

Rate of non-fatal over 3-day workplace injuries (Notes 1 and 2)	1,333
Rate of fatal workplace injuries (Note 2)	nil

Notes

1 Over 3-day workplace injury means an injury at work leading to an absence from work of more than 3 days.

2 The above rates are expressed per 100,000 employees, in line with the normal reporting standard by the Health & Safety Executive.

2. Environment

Policy

To promote and improve throughout the Group the benefits of efficient usage of energy and water.

Actions

Recycling processes have been in use in the Group for many years. Recycled materials and those that minimise negative environmental impacts are used wherever possible. A steadily increasing proportion of the packaging, paper, toner cartridges and cartons used by the Group's operations is recycled after use and in many cases biodegradable packaging is used.

It is in the interests of the environment and in the financial interests of the Group to make the most efficient and responsible use of energy. The practice of responsible resource and energy management through reduced consumption and the encouragement of energy and water efficiency is widespread throughout the Group's operations world-wide.

Developments during 2003 include:

Vinten continues to refine and develop its Environmental Management System, taking into account appropriate best practices. Vinten strives to improve consumption of materials in all operations and to reduce, rather than have to dispose of, waste wherever possible and to promote recycling and the use of recycled materials. Vinten works in partnership with its suppliers to minimise the impact of operations through a quality purchasing policy and recycling through suppliers. They also use a recycling system that covers paper, cans and plastic cups and have an on-going water-efficiency programme.

Drake has introduced the use of standard thickness packaging by switching from tri-wall to double-wall packing to reduce cardboard use. The use of bespoke packaging has also reduced the use of bubble wrap and polystyrene chippings. Drake aims to further reduce the use of bubble wrap and polystyrene chippings by increasing their use of bespoke packaging. Their new building in Cambridge is generally more energy efficient than their previous premises.

During 2004, Drake and Clear-Com plan to implement any actions necessary to comply with the EU Directives on Waste Electrical and Electronic Equipment and on the Restriction of Use of Certain Hazardous Substances.

Anton/Bauer continues to be an active member of the battery recycling scheme in conjunction with The Rechargeable Battery Recycling Corporation. In 2003 they increased their recycling of nickel cadmium batteries by 18% and of NiMH batteries by 50% over 2002 figures. Anton/Bauer currently uses energy saving lightbulbs in all areas but will be switching to lead free bulbs with a low mercury content in 2004.

Corporate social responsibility report continued

During 2003 ALU switched to using cardboard from using a chemical foam substance for its own packing requirements when shipping products. This means that the cardboard may then be recycled by the receiver of the shipment, whereas this was not possible with the chemical foam packaging. ALU was disposed of in December 2003 and so its operations have no continuing environmental impact in the Group.

OConnor continues to recycle the remnant ink from its printers and photocopier, use energy saving lightbulbs, use electronic timers for heating and air conditioning units, and to recycle all of its machine cutting chips and scrap metal. OConnor's hazardous waste materials and liquids are collected by a waste management company for disposal. Deburr particles are separated from process liquid by a cyclonic separator and properly disposed of – the liquid is then reused. All OConnor's product packaging uses recycled materials.

Energy usage in 2003	Electricity usage (in kilowatt hours)	Gas usage (in kilowatt hours)	Water usage (in cubic metres)
	8,114,982	4,993,294	25,912

The energy consumption figures for 2003 compared to those for 2002 (excluding the acquisitions in 2003) show a reduction in the usage of gas and water. However, overall in 2003, the Group's use of electricity and water has risen when compared to 2002 due to higher activity levels and the acquisition of OConnor and Radamec Broadcast Systems in the early part of 2003. The Group's use of gas in 2003 has reduced. The target for future years is to reduce or, at worst, maintain the ratio of energy consumption at the Group's current activity levels.

Any increase or decrease in activity levels in the future, and any acquisition or disposal by the Group, would result in an increase or decrease in the Group's energy consumption.

3. Human rights

Policy

To comply with the laws and customs of each country in which we operate. Not to use child labour. Not to discriminate in any way and to give equal opportunities to all workers.

Actions

The above policy has been part of the Group's approach for many years. The Group's operating companies are required to include it as part of their employee policies and to comply.

4. Community impact and involvement

Policy

To contribute to local worthwhile causes and charities and to ensure that the Group's operations cause minimal negative impact within the community.

Actions

For many years the Group has contributed to worthwhile causes. Donations are usually, and have been in the past, primarily to childrens, cancer, police, fire brigade, drug rehabilitation and other similar charities. The Group's charity committee reviews all written requests for donations and decides on the level of donation and the charities to which donations are made.

During 2003 donations were made to 20 charities. The amount donated by the charity committee totalled £7,000 (2002: £6,998). Like all companies, the Group has limited resources and the amount of money available for charitable purposes varies from time to time.

5. Relationships with suppliers, customers and other stakeholders

Policy

The Group recognises the obligations it has towards the parties with whom it has business and other dealings such as its customers, shareholders, employees, suppliers and advisers. Dealings with those groups of people depend upon the honesty, integrity and enthusiasm of its employees and every effort is made to ensure that a high standard of expertise and business principles is maintained in such dealings. Where appropriate, training is given to maintain and to raise the standards.

Actions

As stated in the Directors' report, the Group's policy with suppliers is that individual subsidiary companies are responsible for negotiating terms and conditions under which suppliers operate. Once agreed, payments to suppliers are made in accordance with those terms and conditions, subject always to the supplier having complied with them. That policy has been in place for a number of years and will continue for the financial year ending 31 December 2004. We continue to review and take action where appropriate to ensure the reliable and consistent sources of quality materials from which our products are made.

In all our dealings, honesty and integrity continue to be paramount. The Group's brands are a highly valuable asset and every effort is made to enhance their reputation for high quality, service and reliability.

Corporate governance

The Listing Rules require a company to include in its annual report and accounts a statement of how it has applied the principles set out in Section 1 of the Combined Code (the "Code") together with an explanation to enable its shareholders to evaluate how the principles have been applied. The Listing Rules also require a company to include a statement as to whether or not it has complied throughout the accounting period with the Code provisions set out in Section 1 of the Code. A company that has not complied with the Code provisions, or complied with only some of the Code provisions or (in the case of provisions whose requirements are of a continuing nature) complied for only part of an accounting period, must specify the Code provisions with which it has not complied, and (where relevant) for what part of the period such non-compliance continued, and give reasons for such non-compliance.

The Code was revised in 2003 (the "new Code"). The new Code supersedes the Code for listed companies with reporting years beginning on or after 1 November 2003. However, the Company has already taken steps to ensure that it complies with the main and the supporting principles of the new Code and with its provisions.

Statement of compliance

The Board considers that it has complied with the Code throughout the year ended 31 December 2003. The Company regularly reviews and revises its procedures, as necessary, to take account of the requirements of the Code and of the new Code.

The Board

The Board meets on average six times a year and there is a formal schedule of matters and levels of authority which are delegated to the executive directors, all other matters and powers being reserved to the Board.

Throughout the year the Board comprised four non-executive directors and two executive directors. All the non-executive directors are considered to be independent. Gareth Rhys Williams was a director and the Chief executive throughout the year. Alastair Hewgill was the Finance director throughout the year. During 2003 all the directors attended all the Board meetings.

The directors bring independent judgement to bear on strategic matters, the performance of the Group, the adequacy of resources and standards of conduct. The roles of the Chairman (who is non-executive) and of the Chief executive are separate and they each have a clear written division of responsibilities approved by the Board. David Bell is the senior independent director and his biographical details are shown on page 19. Outside of Board meetings, the non-executive directors maintain regular contact with each other by telephone and usually meet prior to Board meetings. The same pattern of contact outside of Board meetings is planned to continue through 2004.

Directors, having notified the Chairman, are able to take independent professional advice at the Company's expense in furtherance of their duties. All new directors are given an extensive introduction to the Group, including meeting with senior executives and visiting the Group's principal operations both in the UK and overseas. All directors have access to the advice and services of the Group company secretary.

The papers supplied for consideration by the Board are provided on a timely basis and include budgets, strategy papers, reviews of the Group's financial position and operating performance and annual and interim reports and accounts. Further information is supplied from time to time as and when requested by the Board.

The Board has an Audit committee, a Remuneration committee and a Nominations committee. Each committee has formal terms of reference. The members of these committees are shown on pages 18 and 19.

The terms of reference and the effectiveness of each committee have been reviewed and changes have been made in the light of the new Code. Individual director performance evaluation has also taken place. In the case of the executive directors this evaluation takes place regularly throughout the year against achievement of specific objectives. Evaluation of the Chairman has been carried out by the senior independent director. Evaluation of each of the other non-executive directors has been carried out by the Chairman. Each evaluation has been carried out by using written questionnaires and has been discussed individually with each of the relevant non-executive directors. Similar evaluations will take place each year in the future.

Audit committee

The members of the Audit committee and their biographical details are shown on pages 18 and 19. The committee is chaired by John Potter. Each member of the committee is required to be independent. The Company's external auditor is invited to attend meetings of the committee on a regular basis. During 2003 the committee met 3 times. One of those meetings was with the auditor, without the executive directors being present. This will continue in the future.

Duties of the committee:

Financial Reporting

Monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

Review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

Corporate governance continued

Internal Controls and Risk Management Systems

Keep under review the effectiveness of the Company's internal controls and risk management systems; and review and approve the statements to be included in the annual report concerning internal controls and risk management.

Whistleblowing

Review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

Internal Audit

The Company does not have an internal audit function. However, the need for such a function is regularly reviewed and considered by the committee. (Refer to the final paragraph of Internal Control and Risk Management).

External Audit

Consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The committee oversees the selection process for a new auditor and, if an auditor resigns, the committee is required to investigate the issues leading to this and decide whether any action is required.

Oversee the relationship with the external auditor including, but not limited to:

- approval of its remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
- approval of its terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- assessing annually its independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
- satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
- agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
- monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;

- assessing annually its qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on its own internal quality procedures;
- meeting regularly with the external auditor, including at the planning stage before the audit and after the audit at the reporting stage. The committee meets the external auditor at least once a year, without executive directors being present, to discuss their remit and any issues arising from the audit;
- reviewing and approving the annual audit plan and ensuring that it is consistent with the scope of the audit engagement;
- reviewing the findings of the audit with the external auditor. This includes but is not limited to the following:
 - a discussion of any major issues that arose during the audit,
 - any accounting and audit judgements, and
 - levels of errors identified during the audit.
- reviewing the effectiveness of the audit and reviewing any representation letter requested by the external auditor before it is signed by management;
- reviewing the management letter and management's response to the auditor's findings and recommendations;
- developing and implementing a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

Reporting Responsibilities

- The committee chairman reports to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- The committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Other Matters

The committee has access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;

The committee members are provided with training as and when required, both in the form of an induction programme for new members and on an ongoing basis for all members;

The committee may oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and

At least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Authority

The committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties and to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference. It is also authorised to call any employee to be questioned at a meeting of the committee as and when required.

Remuneration committee

The members of the Remuneration committee and their biographical details are set out on pages 18 and 19. The committee is chaired by David Bell. During 2003, the committee met three times. The Report of the Remuneration committee is set out on pages 23 to 29.

Duties of the committee:

- determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chairman, the executive directors, the Company secretary and such other members of the executive management as it is designated to consider. *The remuneration of the non-executive directors shall be a matter for the Board. No director or manager shall be involved in any decisions as to their own remuneration;*
- in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- approving the design of, and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes;
- reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used;
- determining the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- ensuring that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- within the terms of the agreed policy and in consultation with the

Chairman and/or Chief executive as appropriate, determining the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments and share options or other share awards;

- in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the Code, the new Code and the UK Listing Authority's Listing Rules and associated guidance;
- reviewing and noting annually the remuneration trends across the Company or Group;
- overseeing any major changes in employee benefits structures throughout the Company or Group;
- agreeing the policy for authorising claims for expenses from the Chief executive and Chairman;
- ensuring that all provisions regarding disclosure of remuneration including pensions, as set out in the Directors' Remuneration Report Regulations 2002, the Code and the new Code are fulfilled; and
- be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee: and to obtain reliable, up-to-date information about remuneration in other companies. The committee shall have full authority to commission any reports or surveys that it deems necessary to help it fulfil its obligations.

Reporting Responsibilities

- The committee chairman reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- The committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Other Responsibilities

- The committee, at least once a year, reviews its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Authority

The committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties. The committee is also authorised by the Board, in connection with the committee's duties, to obtain, at the Company's expense, any outside legal or other professional advice.

Corporate governance continued

Nominations committee

The members of the Nominations committee and their biographical details are set out on pages 18 and 19. The committee is chaired by Will Wyatt. The committee is delegated authority by the Board to deal with succession planning and making recommendations to the Board on all new Board appointments. During 2003, the committee met formally on one occasion.

Duties of the committee:

- regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board in the future compared to its current position and make recommendations to the Board with regard to any changes;
- give full consideration to succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the company, and the skills and expertise needed on the Board in the future;
- be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise;
- before appointment is made by the Board, evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the committee:
- uses open advertising or the services of external advisers to facilitate the search;
- considers candidates from a wide range of backgrounds; and
- considers candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position;
- keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace;
- keep up to date and fully informed about strategic issues and commercial changes affecting the company and the market in which it operates;
- review annually the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties; and
- ensure that on appointment to the Board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The Committee also makes recommendations to the Board concerning:

- formulating plans for succession for both executive and non-executive directors and in particular for the key roles of Chairman and Chief executive;
- suitable candidates for the role of senior independent director;
- membership of the Audit and of the Remuneration committees, in consultation with the chairmen of those committees;
- the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- the continuation (or not) in service of any director who has reached the age of 70;
- the re-election by shareholders of any director under the 'retirement by rotation' provisions in the Company's articles of association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- any matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Company subject to the provisions of the law and their service contract; and
- the appointment of any director to executive or other office other than to the positions of chairman and chief executive, the recommendation for which would be considered at a meeting of the full Board.

Reporting Responsibilities

- The committee chairman reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- The committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Other

The committee, at least once a year, reviews its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommends any changes it considers necessary to the Board for approval.

Authority

The committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties. The committee is also authorised by the Board, in connection with the committee's duties, to obtain, at the Company's expense, any outside legal or other professional advice.

Appointments and re-elections to the Board

The Chairman and the other non-executive directors are appointed for an initial period of three years which, with the approval of the Nominations committee and the Board, would normally be extended for a further three years. In exceptional circumstances, appointments of non-executive directors may be extended beyond six years, with the approval of the Nominations committee and the Board, if it is in the interests of the Group to do so.

Under the Company's articles of association, each director is required to be re-elected at the third annual general meeting following that at which he or she was last elected or re-elected. A new non-executive director, Nigel Moore, was appointed on 1 March 2004. Mr Moore has also been appointed as a member of the Audit committee and it is intended that he will take over the chairmanship of that committee in September. Mr Moore will be proposed for election at the 2004 annual general meeting.

Alison Carnwath, the Chairman, and David Bell, the senior independent director, both of whom are non-executive, have now served for eight years and seven years, respectively. They have significant business experience and detailed knowledge of the Group and have been asked, and have agreed, to continue in their current roles for a further period. However, as referred to in the Chairman's statement, a search process is taking place for a successor to the Chairman with a view to making an appointment during 2004.

Relations with shareholders

The Board recognises the importance of maintaining regular contact with its shareholders to ensure that its businesses, strategy and remuneration policies are understood and that any concerns are addressed in a constructive way. The Board communicates with its shareholders through a combination of public announcements through the Stock Exchange, analyst briefings and press interviews at the time of the announcements of the interim and the full year results and, when appropriate, at other times in the year. The executive directors also meet with investors from time to time during the year. The annual general meeting offers a further opportunity for the directors to meet with shareholders.

At meetings of shareholders, the level of proxy votes received, together with the numbers of votes in favour, against and abstaining, is announced after each resolution has been dealt with on a show of hands. Separate resolutions are proposed for each issue upon which shareholders are asked to vote.

The Company has complied with the requirement set out in the Code in respect of shareholders' meetings to send the notice of annual general meeting and related papers at least 20 working days before the meeting. It will continue to comply with the requirement.

Internal control and risk management

The Board is responsible for the Group's system of internal control to safeguard shareholders' investment and the company's assets (Code principle D.2). As part of its responsibility, the Board reviews the effectiveness of its internal controls. The Group has systems and procedures for internal control that are designed to provide reasonable control over the activities of the Group and to enable the Board to fulfil its legal responsibility for the keeping of proper accounting records, safeguarding the assets of the Group and detecting fraud and other irregularities. However, it is recognised

that it is in the nature of any business that business and commercial risks must be taken and that for a business to succeed, enterprise, initiative and the motivation of employees are key elements that must not be unduly stifled. It is not the intention of the Group to avoid all commercial risks and commercial judgements will have to be made in the course of the management of the business.

Since its implementation of the recommendations of the Cadbury Committee Code of Best Practice through the guidance published by the Working Group on Internal Control in December 1994, the Board has adopted a risk-based approach to establishing the system of internal control. The application of Code principle D.2 and the process followed by the Board in reviewing the effectiveness of the system of internal control during the year (Code provision D.2.1) is as follows:

- operating company management is charged with the ongoing responsibility for identifying risks facing each of the businesses and for putting in place procedures to monitor and manage risks.
- the responsibilities of the chief executive officer and chief financial officer at each operating unit to manage risks within their businesses are periodically reinforced by Group executive management.
- major commercial, technological and financial risks are formally assessed during the annual long-term business planning process around mid-year. These plans and the attendant risks are reviewed by the Board.
- large capital projects, product development projects and acquisitions require Board approval.
- the process by which the Board reviews the effectiveness of internal control has been agreed by the Board and documented. This involves bi-annual reviews by the Board, of the major business risks of the Group together with the controls in place to manage those risks as reported to the Board by the chief executives of each division. In addition, at the end of each year, businesses formally review, in detail, all of their business risks and their internal controls, including finance, cash, IT, sales, purchasing and logistics. They then prepare statements that describe the extent of their compliance with control objectives. These statements are approved by the chief executive officer and chief financial officer of each operating unit and submitted to Group executive management for review. Any significant matters arising from this review are formally reported to the Board by the Finance director. The risk and control identification and certification process is monitored and periodically reviewed by group financial management.
- The Board has established a control framework within which the Group operates. This contains the following key elements:
 - organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements.
 - defined expenditure authorisation levels.

Corporate governance continued

- on-site and telephone conferencing operations reviews covering all aspects of each business are conducted by Group executive management on a regular basis throughout the year.
- comprehensive system of financial reporting. The annual budget and long term plan of each operating company are reviewed in detail and approved by the executive directors. The Board approves the overall Group's budget and plans. Monthly actual results are reported against prior year and monthly budgets. Forecasts are revised where necessary but formally at least once every quarter. Any significant changes and adverse variances are questioned by the Group executive directors and remedial action is taken where appropriate. Group tax and treasury is co-ordinated centrally. There is weekly cash and treasury reporting to Group financial management and periodic reporting to the Board on the Group's tax and treasury position.

The Board considers that it has fully complied during the year and up to the date of approval of the annual report and accounts with the Code provision D.2.1 as set out in the Guidance for Directors on the Combined Code, published by the Internal Control Working Party of the Institute of Chartered Accountants in England and Wales.

The Group does not have an internal audit function. However, the need for such a function is regularly reviewed (Code provision D.2.2). The current conclusion of the Board is that an internal audit function is not required given the scale, diversity and complexity of the Group's activities. Where required, third party audit consultants, independent from the companies' external auditors, are used on specific assignments. The Company believes it can access professional 'internal audit' support in the relevant country more effectively than by having an internal department. Two such outsourced audits took place in 2003.

Going concern

The directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the accounts.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of The Vitec Group plc

We have audited the financial statements on pages 40 to 70. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 38, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 33 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 and the part of the directors' remuneration report to be audited. 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 group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2003 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
1 March 2004

Consolidated profit and loss account

for the year ended 31 December 2003

	Notes	Before exceptional items, goodwill amortisation & impairment £m	Exceptional Items £m	Goodwill amortisation & impairment £m	2003 Total £m	2002 Restated ⁽¹⁾ Total £m
Turnover	3					
Existing operations		164.5			164.5	164.4
Acquisitions		5.9			5.9	
Continuing operations		170.4			170.4	164.4
Discontinued operation		22.4			22.4	17.8
Cost of sales	4	192.8 (111.4)			192.8 (111.4)	182.2 (99.4)
Gross profit		81.4			81.4	82.8
Net operating expenses	4/5	(63.6)	(1.9)	(3.4)	(68.9)	(64.8) ⁽²⁾
Operating profit	3/6					
Existing operations		18.2	(0.9)	(3.1)	14.2	16.8
Acquisitions		(0.4)	(1.0)	(0.3)	(1.7)	–
Continuing operations		17.8	(1.9)	(3.4)	12.5	16.8
Discontinued operations		–	–	–	–	1.2
Profit on sale of fixed assets	5	17.8	(1.9)	(3.4)	12.5	18.0
Loss on disposal of discontinued operations	21	–	–	–	–	0.2
Profit on ordinary activities before interest		–	(3.0)	–	(3.0)	–
Net interest payable	24	17.8	(4.9)	(3.4)	9.5	18.2
Profit on ordinary activities before tax		(1.7)	–	–	(1.7)	(1.6)
Tax on profit on ordinary activities	9	16.1	(4.9)	(3.4)	7.8	16.6
Profit on ordinary activities after tax and for the financial year		(6.4)	4.1	–	(2.3)	(9.1)
Dividends	10	9.7	(0.8)	(3.4)	5.5	7.5
Retained loss for the year transferred to reserves	23				(9.3)	(9.3)
Basic earnings per share	11				13.6p	18.3p
Diluted earnings per share	11				13.5p	18.3p
Adjusted basic earnings per share ⁽³⁾	11				23.9p	34.1p

⁽¹⁾ Net operating expenses and cost of sales in the year ended 31 December 2002 have been restated following the re-categorisation to cost of sales of £5.3 million of variable warehouse and service costs within the Broadcast Services Division and £1.1 million of exchange gains previously classified as net operating expenses.

⁽²⁾ Net operating expenses in the year ended 31 December 2002 included £5.8 million of exceptional restructuring costs and £0.9 million of goodwill amortisation.

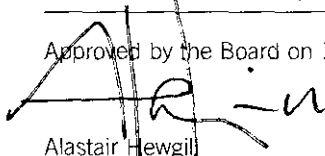
⁽³⁾ Adjusted basic earnings per share is presented as the Directors consider that this gives valuable additional information about the ongoing earnings performance of the Group. There is no material difference between the Group's profit and loss account and the historical cost profit and loss account. Accordingly, no note of the historical cost profit and loss for the period has been presented.

Balance sheets

as at 31 December 2003

	Notes	2003 £m	Group 2002 £m	2003 £m	Company 2002 £m
Fixed assets					
Intangible assets	12	10.1	11.0	-	-
Tangible assets	13	34.5	42.7	2.0	2.2
Investments	14	0.5	0.5	155.2	144.8
		45.1	54.2	157.2	147.0
Current assets					
Stocks	15	33.2	30.5	-	-
Debtors	16	42.2	37.0	2.8	2.3
Cash at bank and in hand	24	15.6	16.1	4.0	2.3
		91.0	83.6	6.8	4.6
Creditors - due within one year	17	(37.3)	(36.8)	(52.6)	(48.3)
Net current assets/(liabilities)		53.7	46.8	(45.8)	(43.7)
Total assets less current liabilities		98.8	101.0	111.4	103.3
Creditors - due after more than one year	17	(26.1)	(24.3)	(26.0)	(24.0)
Provisions for liabilities and charges	19	(12.4)	(13.8)	(0.1)	(0.1)
Net assets		60.3	62.9	85.3	79.2
Capital and reserves					
Called up share capital	22	8.2	8.2	8.2	8.2
Share premium account	23	2.6	2.6	2.6	2.6
Capital redemption reserve	23	1.6	1.6	1.6	1.6
Revaluation reserve	23	1.5	1.5	0.9	0.9
Other reserves	23	-	-	53.7	53.7
Profit and loss account	23	46.4	49.0	18.3	12.2
Shareholders' funds - equity		60.3	62.9	85.3	79.2

Approved by the Board on 1 March 2004 and signed on its behalf


Alastair Hewgill
Director

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2003

	2003 £m	2002 £m
Profit for the financial year	5.5	7.5
Exchange rate movements on foreign net investments	(0.9)	(2.5)
Total recognised gains and losses relating to the year	4.6	5.0

Reconciliation of movements in consolidated shareholders' funds

for the year ended 31 December 2003

	2003 £m	2002 £m
Profit for the financial year	5.5	7.5
Dividends	(9.3)	(9.3)
Retained loss for the year	(3.8)	(1.8)
Exchange rate movements on foreign net investments	(0.9)	(2.5)
Goodwill previously written off included in profit for the financial year	2.1	-
New share capital subscribed	-	0.1
Net decrease in shareholders' funds	(2.6)	(4.2)
Opening shareholders' funds	62.9	67.1
Closing shareholders' funds	60.3	62.9

Consolidated cashflow statement

for the year ended 31 December 2003

	Notes	2003 £m	2002 £m
Net cash inflow from operating activities	6	28.7	35.4
Returns on investments and servicing of finance			
Interest received		0.2	0.3
Interest paid		(2.0)	(1.9)
Net cash outflow from returns on investments servicing of finance		(1.8)	(1.6)
Tax Paid		(10.8)	(6.6)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(10.2)	(10.0)
Sale of tangible fixed assets		2.4	3.9
Purchase of fixed asset investments		-	(0.5)
Net cash outflow from capital expenditure		(7.8)	(6.6)
Acquisitions & disposals			
Purchase of subsidiary undertakings		(6.4)	(1.7)
Disposal of subsidiary undertakings		2.6	-
Equity dividends paid		(9.3)	(9.3)
Net cash inflow before financing		(4.8)	9.6
Financing			
Issue of shares		-	0.1
Repayment of loans		(1.9)	(12.0)
New unsecured loan ⁽¹⁾		5.4	-
Net cash inflow/(outflow) from financing		3.5	(11.9)
Decrease in cash in the year	24	(1.3)	(2.3)

⁽¹⁾ New unsecured loans of £5.4 million were obtained by Alu srl prior to its sale and were transferred as part of the disposal of that business (see note 21).

Notes to the accounts

1 Basis of presentation

The consolidated profit and loss account and balance sheets include the accounts of the Company and its subsidiary undertakings made up to 31 December 2003. The accounts have been prepared in accordance with all applicable accounting standards under the historical cost convention modified to include the revaluation of certain land and buildings.

2 Accounting policies

Basis of consolidation. The results of subsidiaries sold or acquired during the year are included in the accounts up to, or from, the date that control passes, unless otherwise stated.

For acquisitions which were made prior to 1 January 1998, the differences between the fair value of the consideration paid for investments in subsidiaries or businesses and the fair value of their net assets at the date of acquisition was treated as purchased goodwill and was written off directly against reserves.

For acquisitions made on or after 1 January 1998, purchased goodwill arising from the differences between the fair value of the consideration paid and the fair value of the net assets acquired, as at the date of acquisition is capitalised in the balance sheet as an intangible asset. This purchased goodwill is being charged to the profit and loss account through amortisation on a straight-line basis over its estimated useful life up to a maximum of 20 years.

Impairment tests are carried out on the purchased goodwill arising on acquisitions that occurred in the preceding year or when a triggering event occurs. Where necessary, provision is made for any impairment that has arisen.

Upon the disposal of businesses which have become part of the Group by acquisition, purchased goodwill previously written off to reserves, or the unamortised portion of purchased goodwill remaining in the balance sheet as an intangible asset, is written off to the profit and loss account.

Turnover. Turnover, which excludes value added tax and sales between Group companies, represents the value of products and services sold. Other than for long term contracts, the treatment of which is set out separately below, revenue arising from product sales is recognised when title passes to the customer which is upon delivery of the product.

Revenue arising from asset rental is recognised over the duration of the rental contract at the gross amount billed to the customer, where we act as principal in the rental transaction.

Long term contracts. The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to the stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Foreign currencies. Transactions in foreign currencies with overseas customers and suppliers are converted at the average rates for the months in which transactions occur. Profits and losses arising from the difference between these rates and contracted rates on forward exchange contracts, which are set up as hedges against such sales and purchases, are recorded in cost of sales. Foreign trading profits and cash flows are translated at the average rates for the year. Monetary assets and liabilities are translated at the year-end rates and the gains or losses on translation are included in the profit and loss account. Differences on translation of investments in overseas companies are taken directly to reserves.

Research and development. Expenditure on the Group's research and development projects is generally charged to the profit and loss account in the year in which it is incurred. In certain specialised cases where a development project meets clearly defined criteria and the commercial outcome can be assessed with reasonable certainty, development expenditure is capitalised. Such capitalised expenditure is amortised over the life of the project.

Investments. Fixed asset investments are stated individually at cost less, where appropriate, provision for impairment in value. Current asset investments are stated at the lower of cost and net realisable value. Cost includes, where appropriate, accrued interest.

Fixed assets and depreciation. Depreciation is provided at rates estimated to write off the cost or valuation of the relevant assets less their estimated residual values by equal annual amounts over their expected useful lives. No depreciation is provided on freehold land. Other fixed assets are depreciated at the rates indicated below:

Freehold and long leasehold buildings	2½% – 5% on cost or valuation
Short leasehold property	over the remaining period of the lease
Plant and machinery	12½% – 25% on cost
Motor vehicles	25% – 33⅓% on cost
Equipment, fixtures & fittings	10% – 33⅓% on cost
Rental equipment	20% – on cost

Fixed assets are stated at cost except that, as allowed under FRS 15 'Tangible Fixed Assets', on adoption of that Standard in the year ending 31 December 2000 when the book amounts of revalued land and buildings were retained. These book values are based on the previous revaluation on 31 March 1989 and have not been subsequently revalued.

Stock and work in progress. Stock and work in progress is valued at the lower of cost and net realisable value, less progress payments. Cost includes materials, direct labour and production overheads incurred in bringing stocks and work in progress to their present location and condition.

Capital instruments are stated in the balance sheet after the deduction of issue costs, which are charged to the profit and loss account over the term of the debt.

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the transactions being hedged.

Deferred tax. The charge for taxation is based on the profit for the year and takes into account tax deferred because of timing differences between the treatment of certain items for tax and accounting purposes. Full provision for deferred tax is made, on an un-discounted basis, where there is an obligation to pay more tax, or a right to pay less tax, in the future. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Pension costs. The costs of providing pensions for employees under defined benefit pension schemes are charged to the profit and loss account over the working lives of the employees in accordance with the recommendations of qualified actuaries. Any funding surpluses or deficits that may arise are amortised over the average working life of the employees but surpluses may first be used to improve members' benefits. The costs of providing pensions for employees under state and other defined contribution schemes are expensed as incurred.

FRS 17 "Retirement benefits". This Standard replaces use of actuarial values for assets in a pension scheme in favour of a market-based approach. In order to cope with the volatility inherent in this measurement basis, the Standard requires that the profit and loss account shows the relatively stable ongoing service cost, interest cost and expected return on assets. Fluctuations in market values and changes in actuarial assumptions are reflected in the statement of total recognised gains and losses. The Group has continued to account for pensions and other post employment benefits in accordance with SSAP 24 but has complied with the transitional disclosure requirements of FRS 17.

Employee share schemes. The costs of awards to employees that take the form of shares or rights to shares (including conditional rights) are recognised over the periods to which the employees' performance relates. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

Leases. Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

Assets held for short-term rentals are recorded as plant and machinery within fixed assets and depreciated over their estimated useful lives. Rental income from these assets is recognised as earned on a straight-line basis over the rental periods.

3 Activity analysis

	2003 £m	Operating profit 2002 £m	2003 £m	Turnover 2002 £m	2003 £m	Net assets 2002 £m
3.1 Class of business						
Broadcast Systems	3.9	8.4	81.9	75.7	35.9	31.4
Photographic	13.9	14.2	61.5	59.2	29.4	17.0
Broadcast Services	–	0.9	27.0	29.5	15.7	20.5
	17.8	23.5	170.4	164.4	81.0	68.9
Goodwill amortisation and impairment ⁽¹⁾	(3.4)	(0.9)	–	–	–	–
Exceptional items ⁽²⁾	(1.9)	(5.8)	–	–	–	–
	12.5	16.8	170.4	164.4	81.0	68.9
Discontinued operation ⁽³⁾	–	1.2	22.4	17.8	–	12.3
	12.5	18.0	192.8	182.2	81.0	81.2
Group net liabilities ⁽⁴⁾					(20.7)	(18.3)
					60.3	62.9

Notes to the accounts continued

3 Activity analysis (continued)

Notes relate to the table at the foot of page 45

⁽¹⁾ Goodwill amortisation relates to Broadcast Systems - £0.7 million (2002: £0.4 million), Photographic - £0.1 million (2002: £0.1 million) and Broadcast Services - £0.5 million (2002: £0.4 million). Impairment losses of £2.1 million (2002: £nil) relate to Broadcast Services.

The net book value of goodwill relates to Broadcast Systems - £4.6 million (2002: £2.5 million), Photographic - £1.8 million (2002: £1.8 million) and Broadcast Services - £3.2 million (2002: £6.0 million).

⁽²⁾ Exceptional items relate to Broadcast Systems - £1.9 million (2002: £5.0 million) and Photographic - £nil (2002: £0.8 million).

⁽³⁾ The discontinued operation is the Retail Display business that was sold on 30 December 2003 (see note 21).

⁽⁴⁾ Group net liabilities include net borrowings, capitalised goodwill, Group dividends payable and central creditors and provisions.

	2003 £m	Operating profit 2002 £m	2003 £m	Turnover 2002 £m	2003 £m	Net assets 2002 £m
3.2 Geographic area by origin						
United Kingdom	(2.8)	(4.1)	31.0	21.6	14.6	9.7
The rest of Europe	13.7	17.2	56.4	58.2	29.2	16.1
The Americas	6.7	9.7	83.0	81.9	35.9	41.7
Asia and Australasia	0.2	0.7	-	2.7	1.3	1.4
	17.8	23.5	170.4	164.4	81.0	68.9
Goodwill amortisation and impairment ⁽¹⁾	(3.4)	(0.9)	-	-	-	-
Exceptional items ⁽²⁾	(1.9)	(5.8)	-	-	-	-
	12.5	16.8	170.4	164.4	81.0	68.9
Discontinued operation ⁽³⁾	-	1.2	22.4	17.8	-	12.3
	12.5	18.0	192.8	182.2	81.0	81.2
Group net liabilities ⁽⁴⁾					(20.7)	(18.3)
					60.3	62.9

⁽¹⁾ Goodwill amortisation relates to the United Kingdom - £0.3 million (2002: £nil), The rest of Europe - £0.1 million (2002: £0.1 million) and The Americas - £0.9 million (2002: £0.8 million) and impairment losses relate to The Americas - £2.1 million (2002: £nil).

The net book value of goodwill relates to the United Kingdom £2.7 million (2002: £0.5 million), The rest of Europe - £1.8 million (2002: £1.9 million) and The Americas - £5.1 million (2002: £7.9 million).

⁽²⁾ Exceptional items relate to United Kingdom - £1.9 million (2002: £0.6 million), The rest of Europe - £nil (2002: £4.3 million) and The Americas - £nil (2002: £0.9 million).

⁽³⁾ The discontinued operation is the Retail Display business which was sold on 30 December 2003 (see note 21). Operating profit, Turnover and Net assets in the Retail Display business relate principally to the rest of Europe and The Americas.

⁽⁴⁾ Group net liabilities include net borrowings, capitalised goodwill, Group dividends payable and central creditors and provisions.

	2003 £m	Turnover 2002 £m
3.3 Turnover by destination		
United Kingdom	9.1	8.0
The rest of Europe	44.7	39.9
The Americas	91.1	90.4
Asia and Australasia	21.5	21.9
Africa and Middle East	4.0	4.2
	170.4	164.4
Discontinued operation ⁽¹⁾	22.4	17.8
	192.8	182.2

⁽¹⁾ The discontinued operation is the Retail Display business which was sold on 30 December 2003 (see note 21).

Turnover in this business relates to the United Kingdom - £1.2 million (2002: £0.2 million), The rest of Europe - £8.0 million (2002: £10.3 million), The Americas £11.9 million (2002: £7.3 million), Asia and Australia - £0.8 million (2002: £nil) and Africa and Middle East - £0.5 million (2002: £nil).

4 Cost of sales and operating expenses

	Continuing £m	Discontinued £m	2003 Total £m	Continuing £m	Discontinued £m	2002 Total £m
Cost of sales	96.1	15.3	111.4	88.7	10.7	99.4
Analysis of operating expenses ⁽¹⁾						
Distribution costs						
– marketing, selling and distribution costs	27.5	3.0	30.5	24.5	2.7	27.2
– research, development and engineering costs	8.0	0.8	8.8	6.7	0.8	7.5
– amortisation of capitalised research and development expenditure	0.2	–	0.2	–	–	–
	35.7	3.8	39.5	31.2	3.5	34.7
Administrative expenses						
– unsuccessful acquisition costs relating to EVS Broadcast Systems	0.9	–	0.9	–	–	–
– exceptional restructuring costs	1.0	–	1.0	5.8	–	5.8
– goodwill amortisation and impairment	3.4	–	3.4	0.9	–	0.9
– other administrative expenses	20.8	3.3	24.1	21.0	2.4	23.4
	26.1	3.3	29.4	27.7	2.4	30.1
Operating expenses	61.8	7.1	68.9	58.9	5.9	64.8

⁽¹⁾ Net operating expenses and cost of sales in the year ended 31 December 2002 have been restated following the re-categorisation to cost of sales of £5.3 million of variable warehouse and service costs within the Broadcast Services Division and £1.1 million of exchange gains previously classified as net operating expenses.

Notes to the accounts continued

5 Exceptional items

Exceptional items included in profit on ordinary activities before interest of £1.0 million relate to the closure of Radamec Broadcast Systems' manufacturing factory at Chertsey, UK and £0.9 million of costs relating to the unsuccessful acquisition of EVS Broadcast Systems. No related tax credit has been recognised on these costs.

Prior year exceptional items included in profit on ordinary activities before interest were £0.2 million profit on the sale of property fixed assets (Photographic), and included in operating profit were restructuring costs of £5.8 million (Broadcast Systems £5.0 million and Photographic £0.8 million). A related tax charge of £0.1 million arose in respect of the sale of the property and a credit of £0.1 million was recognised in respect of the restructuring costs.

6 Operating profit

	2003 £m	2002 £m
The following items are included in operating profit		
Operating lease rental income on owned broadcast equipment	17.8	16.8
Goodwill amortisation and impairment	3.4	0.9
Depreciation	11.3	12.2
Profit on sale of fixed assets	(1.2)	(1.5)
Operating lease rental expense		
Plant, machinery and vehicles	0.1	0.1
Property	4.6	4.4
Auditor's remuneration		
Audit fees (company £0.1 million – 2002: £0.1 million)	0.4	0.4
Other fees paid to the auditor and its associates	1.6	1.1

Other fees paid to the auditor comprises tax advice £0.5 million (2002: £1.0 million); due diligence assistance on acquisitions £0.4 million (2002: £nil); acting as the Group's reporting accountant £0.4 million (2002: £nil) and other £0.3 million (2002: £0.1 million).

	2003 £m	2002 £m
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	12.5	18.0
Development costs amortisation	0.2	–
Goodwill amortisation and impairment	3.4	0.9
Depreciation	11.3	12.2
Profit on sale of fixed assets	(1.2)	(1.5)
(Increase)/decrease in stocks	(3.4)	2.7
Increase in debtors	(0.4)	(4.3)
Increase in creditors	7.8	2.2
(Decrease)/increase in provisions	(1.5)	5.2
Net cash inflow from operating activities	28.7	35.4

7 Employees

	Continuing £m	Discontinued £m	2003 Total £m	Continuing £m	Discontinued £m	2002 Total £m
Aggregate remuneration of all employees during the year						
Wages and salaries	43.1	3.7	46.8	39.1	3.3	42.4
Employers' social security costs	5.9	0.6	6.5	5.6	0.6	6.2
Employers' pension cost	1.9	0.1	2.0	1.7	0.1	1.8
	50.9	4.4	55.3	46.4	4.0	50.4

	Continuing	Discontinued	2003 Total	Continuing	Discontinued	2002 Total
Average number of employees during the year						
Broadcast systems	748	–	748	606	–	606
Photographic	587	–	587	548	–	548
Broadcast services	156	–	156	171	–	171
Head office	12	–	12	14	–	14
Discontinued business - Retail Display	–	121	121	–	107	107
	1,503	121	1,624	1,339	107	1,446

8 Directors' remuneration

The emoluments, share options, awards under incentive schemes and pension entitlements of the directors are disclosed in the Remuneration report on pages 23 to 29.

The combined remuneration of the directors of the Group is set out below

	2003 £m	2002 £m
Fees for non-executive duties	0.2	0.2
Remuneration for executive duties	0.5	0.8
	0.7	1.0

Notes to the accounts continued

9 Tax

(a) Analysis of taxation charge in the year

	Before exceptional items, goodwill amortisation and impairment £m	Exceptional items, goodwill amortisation and impairment £m	2003 Total £m	Before exceptional items, goodwill amortisation and impairment £m	Exceptional items, goodwill amortisation and impairment £m	2002 Total £m
UK corporation tax payable at 30% (2002: 30%)	-	-	-	0.3	-	0.3
Less: Double taxation relief	-	-	-	(0.3)	-	(0.3)
Overseas corporate tax	6.9	(4.1)	2.8	8.3	-	8.3
Adjustments in respect of prior years	(0.2)	-	(0.2)	0.1	-	0.1
Total current tax	6.7	(4.1)	2.6	8.4	-	8.4
Overseas deferred taxation	(0.3)	-	(0.3)	0.7	-	0.7
Taxation on profit on ordinary activities	6.4	(4.1)	2.3	9.1	-	9.1

(b) Factors affecting the current tax charge

	Before exceptional items, goodwill amortisation and impairment £m	Exceptional items, goodwill amortisation and impairment £m	2003 Total £m	Before exceptional items, goodwill amortisation and impairment £m	Exceptional items, goodwill amortisation and impairment £m	2002 Total £m
Profit on ordinary activities before taxation	16.1	(8.3)	7.8	23.1	(6.5)	16.6
Notional charge at UK corporation tax rate of 30%	4.8	(2.5)	2.3	6.9	(2.0)	4.9
Profits in-tax free and low tax areas	(0.5)	-	(0.5)	(0.7)	-	(0.7)
Amortisation of intangible assets	(0.7)	1.0	0.3	(1.0)	0.3	(0.7)
Higher overseas tax rates	1.9	-	1.9	1.8	-	1.8
Timing differences	(0.2)	-	(0.2)	(0.5)	-	(0.5)
Tax losses not recognised	1.6	0.6	2.2	2.0	1.7	3.7
Tax loss on disposal of business	-	(3.2)	(3.2)	-	-	-
Adjustments in respect of prior periods	(0.2)	-	(0.2)	0.1	-	0.1
Other items	-	-	-	(0.2)	-	(0.2)
Current ordinary tax charge for the year	6.7	(4.1)	2.6	8.4	0.0	8.4

(c) Factors that may affect future tax charges

A significant proportion of the Group's operating profits will continue to be earned in countries with a higher rate of tax than in the UK.

No deferred tax has been recognised on tax losses of £11.2 million (2002: £8.0 million) as these are not expected to be utilised in the foreseeable future.

10 Dividends

	2003 £m	2002 £m
Interim paid of 6.1p per share (2002: 6.1p)	2.5	2.5
Final proposed 16.6p per share (2002: 16.6p)	6.8	6.8
Total dividends 22.7p per share (2002: 22.7p)	9.3	9.3

11 Earnings per ordinary share

The calculation of basic earnings per share is based on profit after tax of £5.5 million (2002: £7.5 million) and on the weighted average number of shares in issue during the year of 41,034,098 (2002: 41,008,348).

Adjusted basic earnings per share is presented as the directors consider that this gives a useful additional indication of the ongoing earnings performance of the Group.

This calculation is based on profit after tax but before exceptional items and amortisation and impairment of goodwill. In 2003 this profit was £9.7 million (2002: £14.0 million).

Reconciliation of earnings and its effect on basic earnings per share and adjusted basic earnings per share

	2003 £m	Profit 2002 £m	2003 pence	Earnings per share 2002 pence
Profit for the financial year	5.5	7.5	13.6	18.3
Add back: exceptional items	0.8	5.6	2.0	13.6
Add back: goodwill amortisation and impairment	3.4	0.9	8.3	2.2
Earnings before exceptional items and goodwill amortisation and impairment	9.7	14.0	23.9	34.1

The calculation of diluted earnings per share is based on profit after tax of £5.5 million (2002: £7.5 million).

The number of shares used to calculate the diluted earnings per share incorporates the weighted average number of shares in issue 41,034,098 (2002: 41,008,348) and the number of shares under option of 2,608,381 (2002: 2,678,405), shares from the total of potential Long Term Incentive Plan awards of 447,209 (2002: 404,560), contingently issuable, and shares issuable under the Deferred Bonus Plan of 63,709 (2002: 20,127), as adjusted for a weighting factor between the average exercise prices of the share options and the average market price of the Company's shares during 2003. The number of shares used for the calculation is 41,198,148 (2002: 41,022,262).

Notes to the accounts continued

12 Intangible fixed assets

	Total £m	Development Costs £m	Goodwill £m
Cost			
At 1 January 2003	14.0	0.7	13.3
Currency translation adjustment	(0.9)	-	(0.9)
Additions ⁽¹⁾	3.4	-	3.4
Disposal of subsidiary	(0.3)	-	(0.3)
At 31 December 2003	16.2	0.7	15.5
Amortisation			
At 1 January 2003	3.0	-	3.0
Currency translation adjustment	(0.5)	-	(0.5)
Impairment charge ⁽²⁾	2.1	-	2.1
Charge for the year	1.5	0.2	1.3
At 31 December 2003	6.1	0.2	5.9
Net book value			
At 31 December 2003	10.1	0.5	9.6
At 1 January 2003	11.0	0.7	10.3

⁽¹⁾ Additions of £3.4 million in goodwill represent £2.6 million of goodwill arising on the acquisition of the shares of Radamec Broadcast Systems Limited in the UK, and the operating assets and certain of the liabilities of Radamec Inc in the US, on 18 February 2003, and £0.8 million of goodwill arising on the acquisition of the business of OConnor Engineering Laboratories, on 6 February 2003.

Both the companies are reported within the Broadcast Systems division. (See note 20). The goodwill is being amortised over a period of 10 years.

⁽²⁾ The impairment charge is in respect of goodwill that arose on the acquisitions of Systems Wireless Limited and Moriah Audio Systems Inc, both in 1998. The impairment review was performed using a discount rate of 10%.

13 Tangible fixed assets

	Total £m	Land and buildings £m	Plant machinery and vehicles £m	Equipment fixtures and fittings £m
Group				
Cost or valuation				
At 1 January 2003	103.2	22.3	63.9	17.0
Currency translation adjustments	(1.7)	0.9	(2.7)	0.1
Acquisitions	0.2	–	0.2	–
Additions	10.2	1.1	6.8	2.3
Disposals - on divestment	(9.2)	(5.1)	(3.0)	(1.1)
Disposals - other	(7.7)	–	(6.8)	(0.9)
At 31 December 2003	95.0	19.2	58.4	17.4
Depreciation				
At 1 January 2003	60.5	6.8	43.0	10.7
Current translation adjustment	(1.3)	0.3	(1.6)	–
Charge for the year	11.3	1.0	8.5	1.8
Disposals - on divestment	(3.5)	(0.7)	(2.2)	(0.7)
Disposals - other	(6.5)	(0.1)	(5.7)	(0.6)
At 31 December 2003	60.5	7.3	42.0	11.2
Net book value				
At 31 December 2003	34.5	11.9	16.4	6.2
At 1 January 2003	42.7	15.5	20.9	6.3

Plant, machinery and vehicles includes broadcast equipment rental assets with a cost of £27.8 million (2002: £31.7 million) and accumulated depreciation of £17.9 million (2002: £17.2 million).

The fixed assets of the Company, comprising principally of land and buildings, at a cost of £3.4 million (2002: £3.3 million) and with accumulated depreciation of £1.3 million (2002: £1.1 million) and net book value of £2.1 million (2002: £2.2 million) are included above. During the year additions at cost were £nil and the depreciation charge was £0.2 million.

	2003 £m	Group 2002 £m	2003 £m	Company 2002 £m
Net book value of land and buildings				
at cost or valuation comprise the following				
Carried at cost	10.2	13.7	0.3	0.3
Carried at valuation (open market basis - 31.3.1989)	1.7	1.8	1.7	1.8
	11.9	15.5	2.0	2.1
Freehold	11.2	14.5	1.7	1.8
Short Leasehold	0.7	1.0	0.3	0.3
	11.9	15.5	2.0	2.1

The Group's land and buildings shown above at a revalued net book value of £1.7 million would have been stated under historical cost at £0.7 million and a net book value of £0.2 million.

The revalued amount of the Group's land and buildings has been retained as allowed for by the transitional provisions set out in FRS 15 'Tangible Fixed Assets'. Capital commitments for which no provision has been made in the accounts amount to £0.4 million (2002: £0.3 million) for the Group and £nil (2002: £nil) for the Company.

Notes to the accounts continued

14 Fixed assets investments

	Total £m	Investment in own shares £m	Investment in other shares £m	Loans £m
Investment at cost or written down value				
Group				
Cost				
At 1 January 2003	3.7	0.5	3.2	-
Currency translation adjustment	(0.3)	-	(0.3)	-
At 31 December 2003	3.4	0.5	2.9	-
Provision				
At 1 January 2003	(3.2)	-	(3.2)	-
Currency translation adjustment	0.3	-	0.3	-
At 31 December 2003	(2.9)	-	(2.9)	-
Net book value				
At 31 December 2003	0.5	0.5	-	-
At 1 January 2003	0.5	0.5	-	-
Company				
At 1 January 2003	144.8	0.5	84.6	59.7
Additions	11.0	-	5.0	6.0
Disposals	(0.6)	-	(0.6)	-
At 31 December 2003	155.2	0.5	89.0	65.7

The Group's investment in other shares represents a 10.3% investment in Intersense Inc. A full impairment provision of US\$5.2 million was made against this investment in the year ended 31 December 2001.

The Group's investment in own shares at 31 December 2003 represents 142,857 (2002: 142,857) ordinary shares held in respect of grants under share option schemes. The market value of these shares at 31 December 2003 was £494,285 (2002: £396,000).

Principal subsidiaries

The Group's principal subsidiaries at 31 December 2003, all of which are 100% owned, are listed below.

	<i>Country of incorporation</i>
Vitec Group US Holdings Inc	USA
Vitec Luxembourg Holdings Sarl	Luxembourg
Vitec Investments Limited	England and Wales*
Broadcast systems	
Anton Bauer Inc	USA
Centro de Produccion Profesional CPP Limitada	Costa Rica
Drake Electronics Limited	England and Wales*
Radamec Broadcast Systems Limited	England and Wales*
Sachtler Corporation of America	USA
Sachtler GmbH & Co. KG	Germany
Vinten Broadcast Limited	England and Wales*
Vinten Inc	USA
Vitec CC Inc (trading as Clear Com)	USA
Photographic	
Bogen Imaging Inc	USA
Gitzo SA	France
Gruppo Manfrotto srl	Italy
Lino Manfrotto + Co. SpA	Italy
Broadcast services	
Bexel Corporation	USA

* Indicates companies directly owned by the parent company

A complete list of subsidiary companies will be included in the next annual return.

15 Stocks

	2003 £m	Group 2002 £m
Raw materials and components	11.1	9.1
Work in progress	8.8	7.5
Finished goods	13.3	13.9
	33.2	30.5

Notes to the accounts continued

16 Debtors

	2003 £m	Group 2002 £m	2003 £m	Company 2002 £m
Amounts falling due within one year				
Trade debtors	28.2	28.5	-	-
Amounts recoverable on long term contracts	1.0	1.0	-	-
Amounts owed by subsidiaries	-	-	0.1	0.5
Other debtors	3.3	3.3	0.6	0.5
Tax recoverable	5.6	-	2.0	1.1
Prepayments and accrued income	2.1	2.3	0.1	0.2
	40.2	35.1	2.8	2.3
Amounts falling due after one year				
Prepayments and accrued income	1.0	1.0	-	-
Other debtors	1.0	0.9	-	-
	2.0	1.9	-	-
	42.2	37.0	2.8	2.3

17 Creditors

	2003 £m	Group 2002 £m	2003 £m	Company 2002 £m
Amounts falling due within one year				
Other loans (unsecured)	-	4.0	-	-
Payments received on account	0.5	0.2	-	-
Trade creditors	15.0	12.1	-	-
Amounts owed to subsidiaries	-	-	43.0	40.3
Dividends	6.8	6.8	6.8	6.8
Corporation tax	1.7	5.0	-	-
Other tax and social security cost	1.9	1.6	-	0.1
Other creditors	5.4	3.6	0.8	0.2
Accruals and deferred income	6.0	3.5	2.0	0.9
	37.3	36.8	52.6	48.3
Amounts falling due after more than one year				
Bank loans (unsecured)	26.0	24.0	26.0	24.0
Accruals and deferred income	0.1	0.3	-	-
	26.1	24.3	26.0	24.0

18 Financial instruments

An explanation of the Group's treasury policy and controls is included in the Financial review on page 17. Short term debtors and creditors have been omitted from all disclosures other than the currency profile.

(a) Financial Liabilities

i) Analysis of borrowings

	2003 £m	Group 2002 £m	2003 £m	Company 2002 £m
Bank loans	26.0	24.0	26.0	24.0
Senior notes	-	3.5	-	-
Other loans	-	0.4	-	-
Swaps	-	0.1	-	0.1
Gross financial liabilities	26.0	28.0	26.0	24.1

ii) Maturity profile

	2003 £m	Group 2002 £m	2003 £m	Company 2002 £m
Within one year or less	-	4.0	-	0.1
More than one year but not more than two years	26.0	-	26.0	-
More than two years but not more than five years	-	24.0	-	24.0
	26.0	28.0	26.0	24.1

The total amount of loans any part of which falls due after 5 years is £nil (2002: £nil).

The holding company for the USA subsidiaries, issued in 1993 via a private placement, US\$40 million of 6.72% unsecured Senior Notes 2003 guaranteed by the Company. The notes were repaid in equal installments over 7 years commencing in 1997. The final instalment was paid in September 2003.

Concurrent with the drawdowns under the notes, the Company entered into 10 year US dollar/sterling interest rate swap agreements with banks whereby US\$15 million of fixed rate obligations were exchanged for obligations of £10.1 million at interest rates linked to LIBOR. The obligations under the swap agreements were amortised in line with the underlying notes.

Certain foreign currency loans in Italy amounting to £0.3 million at 31 December 2002 were secured on the land and buildings of subsidiary companies in Italy and were at fixed interest rates of 5.1-5.2%. These loans were repaid during 2003.

	2003 £m	2002 £m
The Group had the following undrawn borrowing facilities at the end of the period		
<i>Expiring in one year or less</i>		
- committed facilities	-	-
- uncommitted facilities	8.0	31.0
<i>More than one year but not more than two years</i>		
- committed facilities	29.0	-
<i>More than two years but not more than three years</i>		
- committed facilities	-	31.0
Total	37.0	62.0

The Group has removed certain uncommitted overdraft facilities that were surplus to requirements.

Notes to the accounts continued

18 Financial instruments (continued)

iii) Interest rate profile

Currency	Total £m	Floating rate borrowing £m	Fixed rate borrowing £m	Fixed rate weighted average interest %	Fixed rate weighted average period Years
Sterling	26.0	26.0	–		
US\$	–	–	–	–	–
Euro	–	–	–	–	–
At 31 December 2003	26.0	26.0	–		
Sterling	25.4	25.4	–		
US\$	2.2	–	2.2	6.7	1.0
Euro	0.4	–	0.4	5.1	1.0
At 31 December 2002	28.0	25.4	2.6		

The floating rate borrowings comprise bank loans bearing interest at rates based on LIBOR.

(b) Financial assets

Currency	2003 £m	2002 Floating rate £m
Sterling	(5.5)	2.5
US\$	10.2	7.3
Euro	10.2	5.2
Other	0.7	1.1
	15.6	16.1

The floating rate financial assets comprise bank deposits bearing interest at rates based on local money market rates.

Sterling, US\$ and Euro balances within the UK can be offset. At December 2003 Euro balances of £3.1 million and US\$ balances of £4.0 million could be offset.

(c) Fair value of financial assets and liabilities

	Book value £m	2003 Fair value £m	Book value £m	2002 Fair value £m
Cash at bank and in hand	15.6	15.6	16.1	16.1
Floating rate borrowing	(26.0)	(26.0)	(25.3)	(25.3)
Fixed rate borrowing	-	-	(2.6)	(2.6)
Swaps	-	-	(0.1)	(0.1)
	(10.4)	(10.4)	(11.9)	(11.9)

Market rates have been used to determine fair values.

(d) Foreign exchange hedging

Cost of sales include net gains of £2.9 million (2002: £1.1 million) arising from the difference between the exchange rates at which foreign currency transactions are converted and the contracted rates on the forward exchange rate contracts, set up as hedges against such transactions. When compared with their values at the exchange rates in effect on 31 December 2003, the cumulative unrecognised aggregate gain on forward exchange rate contracts as of 31 December 2003 is £1.6 million (2002: £2.6 million). All of these unrecognised gains relate to the year 2004. Because these contracts are put in place to hedge a portion of the underlying transactions, any net gain or loss that may arise on these contracts over the forthcoming year will be more than compensated by the corresponding transactional gains or losses.

During the year forward option contracts selling US Dollars and purchasing Euros were taken out, covering the period August 2004 to June 2005. These totalled £8.4 million and the unrecognised gains on these options at 31 December 2003, based on the exchange rates on that date, were £0.7 million. The Group's foreign exchange hedging policy is set out in the Financial Review.

(e) Currency profile

The main functional (or "operating") currencies of the Group are Sterling, US\$ and Euro. The following analysis of net monetary assets and liabilities, excluding cash and borrowings, shows the Group's currency exposures after applying the effects of forward contracts used to manage currency exposure. Such net positions comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating units involved.

Functional currency of group operation	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
Sterling	-	1.4	0.8	(0.2)	2.0
Euro	-	0.8	(0.3)	0.5	1.0
At 31 December 2003	-	2.2	0.5	0.3	3.0
Sterling	-	0.1	0.1	(0.3)	(0.1)
Euro	0.1	2.7	-	0.5	3.3
At 31 December 2002	0.1	2.8	0.1	0.2	3.2

Notes to the accounts continued

19 Provisions for liabilities and charges

	Total £m	Deferred tax £m	Exceptional restructuring £m	Pensions £m	Group Other provisions £m	Total £m	Company Deferred tax £m
At 1 January 2003	13.8	3.8	5.2	3.4	1.4	0.1	0.1
Sale of subsidiary undertaking	0.3	0.5	-	-	(0.2)	-	-
Currency translation adjustment	0.1	(0.3)	0.1	0.3	-	-	-
Transfers from current tax	-	-	-	-	-	-	-
Profit and loss account	3.5	(0.3)	1.0	0.9	1.9	-	-
Utilised in year	(5.3)	-	(4.2)	(0.2)	(0.9)	-	-
At 31 December 2003	12.4	3.7	2.1	4.4	2.2	0.1	0.1

The exceptional restructuring charge of £1.0 million recognised in the profit and loss account in 2003 relates to the closure of Radamec Broadcast Systems Limited's manufacturing facility at Chertsey, UK.

The exceptional restructuring provision will be utilised in 2004 and 2005.

The pensions provision of £4.4 million (2002: £3.4 million) is to cover accrued statutory entitlements that will be paid to employees in Italy, Germany and Japan when they leave the employment of the Group.

The remaining other provisions comprise warranty provisions of £0.7 million (2002: £0.8 million), property related provisions of £nil (2002: £0.2 million) and the provision for the upgrade of retail units of £1.5 million (2002: £nil). These provisions are expected to be utilised in 2004.

Composition of deferred tax provision	2003 £m	Group 2002 £m	2003 £m	Company 2002 £m
Accelerated tax depreciation allowances	2.4	2.7	0.1	0.1
Other timing differences	1.3	1.1	-	-
	3.7	3.8	0.1	0.1

20 Acquisitions of businesses

On 6 February 2003, a subsidiary of the Group purchased the trade, assets and certain liabilities of OConnor Engineering Laboratories from Autocue Inc for a cash consideration of US\$2.7 million (£1.6 million).

The acquisition was funded from existing cash resources and has been accounted for using the acquisition method of accounting.

	Book value £m	Policy alignment £m	Fair value adjustments £m	As adjusted £m
Net Assets acquired				
Intangible fixed assets	0.1	(0.1)	–	–
Tangible fixed assets	0.1	–	–	0.1
Stocks	1.0	(0.1)	(0.1)	0.8
Debtors	0.2	–	–	0.2
Creditors	(0.3)	–	–	(0.3)
	1.1	(0.2)	(0.1)	0.8
Purchased goodwill (being amortised over ten years)				0.8
Total cost of acquisition, including expenses, satisfied by cash				1.6

The policy alignment adjustments relate to the alignment of accounting policies for stock provisions and the capitalisation of intangibles with those of the Group.

Net outflow of cash in respect of acquisitions

Total cost of acquisitions including expenses	1.6
Net cash acquired	–
Total outflow of cash from Group	1.6

The results of OConnor have been included in the Broadcast Systems Division and comprise

	£m
Turnover	1.8
Cost of sales	(1.1)
Operating expenses	(0.8)
Operating loss before goodwill amortisation and impairment	(0.1)

OConnor made a loss after tax of US\$0.2million in the period from 1 May 2002 to 6 February 2003 and a loss after tax of US\$0.3 million in the year ended 30 April 2002.

Notes to the accounts continued

20 Acquisitions of businesses (continued)

On 18 February 2003, the Group acquired the whole of the share capital of Radamec Broadcast Systems Limited in the UK and acquired the operating assets and certain liabilities of Radamec Inc in the USA for a combined cash consideration of £4.8 million.

The acquisition was funded from existing cash resources and has been accounted for using the acquisition method of accounting.

	Book value £m	Policy alignment £m	Fair value adjustments £m	As adjusted £m
Net Assets acquired				
Intangible fixed assets	0.3	(0.3)	–	–
Tangible fixed assets	0.1	–	–	0.1
Stocks	2.5	(0.3)	(0.5)	1.7
Debtors	0.9	–	–	0.9
Creditors	(0.6)	0.1	–	(0.5)
	3.2	(0.5)	(0.5)	2.2
Purchased goodwill (being amortised over ten years)				2.6
Total cost of acquisition, including expenses, satisfied by cash				4.8

The policy alignment adjustments relate to the alignment of accounting policies for stock and the capitalisation of intangibles with those of the Group.

Net outflow of cash in respect of acquisitions

Total cost of acquisitions including expenses	4.8
Net cash acquired	–
Total outflow of cash from Group	4.8

The results of Radamec Broadcast Systems Limited have been included in the Broadcast Systems division and comprise

	£m
Turnover	4.1
Cost of sales	(2.9)
Operating expenses	(1.5)
Operating loss before goodwill amortisation	(0.3)

Radamec Broadcast Systems Limited made a loss after tax of £nil in the period from 1 January 2003 to 18 February 2003 and a loss after tax of £nil in the year ended 31 December 2003.

21 Disposal of businesses

On 30 December 2003, the Group disposed of the the Retail Display business, for a consideration of £10.2 million, being £4.8 million cash, and loan obligations transferred of £5.4 million.

	£m
Net Assets sold	
Intangible fixed assets	0.3
Tangible fixed assets	5.7
Stocks	2.8
Debtors	7.0
Cash	1.2
Creditors	(7.2)
Loan obligations transferred	(5.4)
Provisions	0.3
Total net assets	4.7
Satisfied by	
Cash	4.8
Less expenses	(1.0)
Net consideration	3.8
Loss on disposal before writeback of goodwill	(0.9)
Goodwill written back from reserves	(2.1)
Net loss on disposal before tax	(3.0)
Tax credit	4.1
Net profit on disposal after tax	1.1
Net inflow of cash in respect of the disposal	
Net cash consideration	3.8
Cash disposed of with the business	(1.2)
Net inflow of cash to the Group	2.6

Notes to the accounts continued

22 Share capital

The authorised share capital at 31 December 2003 consisted of 65,000,000 (2002: 65,000,000) shares of 20p each, of which 41,037,301 (2002: 40,985,752) were allotted and fully paid. The movement during the year was:

	Shares	Issued share capital £m
At 1 January 2003	41,021,786	8.2
Exercise of share options	15,515	–
At 31 December 2003	41,037,301	8.2

At 31 December 2003 the following options had been granted and remained outstanding under the Company's share option schemes

	Number of shares	Exercise prices	Dates normally exercisable
United Kingdom SAYE schemes	288,465	231p – 595p	2004 – 2010
International SAYE schemes	371,409	231p – 633p	2004 – 2008
Executive schemes	1,546,510	257.5p – 694p	2004 – 2013
Premium option plan	401,997	793p – 819p	2004 – 2010
	2,608,381		

On 27 March 2003, awards over an aggregate of 196,395 shares in the Company were made to six senior Group executives under the Company's Long Term Incentive Plan. On 9 October 2003, awards over an aggregate of 3,357 shares were made to one senior Group executive under the Company's Long Term Incentive Plan. The total number of shares outstanding at 31 December 2003 under the Company's long term incentive plan was 447,209 (2002: 404,560). The terms of the awards and the related performance conditions are described in the Remuneration report.

On 13 June 2003, awards over an aggregate of 27,092 shares in the Company were made to three senior Group executives under the Company's Deferred Bonus Plan. The total number of shares outstanding at 31 December 2003 under the Company's Deferred Bonus Plan was 63,709. The terms of the awards and the related performance conditions are described in the Remuneration report.

23 Reserves

	Share Premium account £m	Capital Redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Other reserve £m	Profit and loss account £m
Group						
1 January 2003	2.6	1.6	1.5	-	-	49.0
Retained loss for the year						(3.8)
Exchange rate movement on foreign net investments	-	-	-	-	-	(0.9)
Goodwill previously written off included in retained profit for the year	-	-	-	-	-	2.1
31 December 2003	2.6	1.6	1.5	-	-	46.4

At 31 December 2003 the cumulative goodwill written off on acquisitions prior to 1 January 1998 amounted to £126.2 million (2002: £128.3 million).

	Share Premium account £m	Capital Redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Other reserve £m	Profit and loss account £m
Company						
1 January 2003	2.6	1.6	0.9	9.7	44.0	12.2
Retained profit for the year	-	-	-	-	-	6.9
Exchange rate movement on foreign net investments	-	-	-	-	-	(0.8)
31 December 2003	2.6	1.6	0.9	9.7	44.0	18.3

As permitted by Section 230 (4) of the Companies Act 1985 the Company has not presented its own profit and loss account. The amount of the Group result for the financial year dealt with in the accounts of the Company was a profit of £16.2 million (2002: £2.4 million loss).

Notes to the accounts continued

24 Cash and financing

	2003 £m	2002 £m
Reconciliation of net cash flow to movement in net debt		
Decrease in cash in the year	(1.3)	(2.3)
Net (receipt)/repayment of loans	(3.5)	12.0
(Increase)/reduction in net debt resulting from cash flows	(4.8)	9.7
Loans transferred on disposal of business	5.4	–
Exchange rate movement	0.9	0.9
Movement in net debt in the period	1.5	10.6
Net debt at 1 January	(11.9)	(22.5)
Net debt at 31 December	(10.4)	(11.9)

	1 January 2003 £m	Cash flow £m	Other non-cash £m	Exchange movements ⁽²⁾ £m	31 December 2003 £m
Analysis of net debt					
Cash	16.1	(1.3)	–	0.8	15.6
Debt after one year	(24.0)	(2.0)	–	–	(26.0)
Debt due within one year	(4.0)	(1.5)	5.4	0.1	–
	(28.0)	(3.5)	5.4	0.1	(26.0)
Total	(11.9)	(4.8)	5.4	0.9	(10.4)

⁽²⁾ Exchange rate movements result from the adjustment of opening balances and cash flows in the year to closing exchange rates.

	2003 £m	2002 £m
Interest		
Bank loans and overdrafts	1.9	1.5
Other loans – repayable within five years	–	0.5
Total payable	1.9	2.0
Interest receivable	(0.2)	(0.4)
Net interest payable	1.7	1.6

25 Leasing commitments

At 31 December 2003 the Group had the following annual commitments under operating leases.

	Land and buildings £m	Other £m	Total £m	2002 ⁽¹⁾ £m
Expiring within one year	0.8	–	0.8	0.8
Expiring two to five years	1.5	–	1.5	2.8
Expiring after five years	0.2	–	0.2	0.4
	2.5	–	2.5	4.0

⁽¹⁾ Leasing commitments at 31 December 2002 comprised £3.9 million of land and buildings and £0.1 million of other commitments expiring between two and five years.

26 Pension commitments

During the year, the Group operated two funded defined benefit pension schemes set up under separate trusts and open to eligible employees. The Company pays contributions to the fund in order to provide security for existing pensions and the accrued benefits of current and former employees. At the end of the year, the Group closed both schemes to new members.

The adequacy of the schemes to meet the projected benefits is assessed by independent qualified actuaries at regular intervals. The most recent actuarial valuations of the schemes, based on the projected unit method, were as at 5 April 2001. The schemes had assets with a combined market value (excluding the value of insurance policies) of £28.0 million at that date. On the basis of the assumptions adopted, the value of the schemes' assets was equal to 108 per cent of the value placed on the benefits that had accrued to members allowing for expected future increases in salaries. The surpluses arising are being spread over 14 years by way of variation from regular cost using the straight-line method.

The most significant actuarial assumptions were: investment return of 6.1% per annum in respect of liabilities for active members, and 5.1% per annum in respect of liabilities for deferred and current pensioners; price inflation of 2.5% per annum; general salary inflation of 4.5% per annum; pension increases of 2.5% per annum.

Company contributions to the schemes amounted to £0.8 million (2002: £0.7 million) for the year. On this basis, the pension charge for 2003 has been calculated as £0.9 million (2002: £0.8 million). There is a prepayment of £0.8 million (2002: £0.9 million) included in the balance sheet, being the excess of the accumulated company pension contributions paid to the schemes over the amount charged to the profit and loss account.

The disclosures required in relation to the transitional arrangements within FRS17 'Retirement Benefits' have been based on the most recent formal actuarial valuation as at 5 April 2001, updated to 31 December 2003, but using the following financial assumptions for the purpose of FRS17:

Year ended 31 December	2003 % per annum	2002 % per annum
Price inflation	2.75	2.25
General salary and wage inflation	4.75	4.25
Increases to pensions in payment (in excess of GMPs)	2.75	2.25
Increases to deferred pensions	2.75	2.25
Discount rate	5.4	5.5

Notes to the accounts continued

26 Pension commitments (continued)

Scheme assets and expected rate of return		2003		2002	
Year ended 31 December		Fair value £m	Expected rate of return %pa	Fair value £m	Expected rate of return %pa
Equities		19.3	8.2	16.3	8.2
Bonds		6.5	5.0	5.6	4.8
Property		1.2	7.1	1.4	6.9
Cash and net current assets		0.3	3.8	0.1	4.0
Total		27.3	7.3	23.4	7.3

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities are derived from cash flow projections over long time periods and thus are inherently uncertain.

Profit and loss charge for the year 2003 (based on 31 December 2002 assumptions)	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	2003 Total £m	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	2002 Total £m
Analysis of amounts charged to operating profit:						
Current service cost	0.8	0.4	1.2	0.7	0.4	1.1
Total charged to operating profits	0.8	0.4	1.2	0.7	0.4	1.1
Analysis of the amount charged to other finance income:						
Interest on pension scheme liabilities	1.0	0.5	1.5	1.0	0.5	1.5
Expected return on assets in the pension scheme	(1.2)	(0.5)	(1.7)	(1.4)	(0.5)	(1.9)
Net credit to other finance income	(0.2)	-	(0.2)	(0.4)	-	(0.4)
Total profit and loss charge before deduction for tax	0.6	0.4	1.0	0.3	0.4	0.7

	2003 £m	2002 £m
Analysis of amounts recognised in the Statement of total gains and losses		
Actual return less expected return on pension scheme assets	2.1	(5.6)
Experience gains and losses arising on the scheme liabilities	–	0.1
Changes in assumptions underlying the present value of the scheme liabilities	(2.9)	(0.2)
Actuarial loss recognised in Statement of total gains and losses before adjustment for tax	(0.8)	(5.7)

	2003	2002
History of experience gains and losses		
a. (Gain)/loss on plan assets amount (£ million)	(2.1)	5.6
% of plan assets at end of year	7.6%	23.4%
b. Experience (gain)/loss on plan liabilities amount (£ million)	–	(0.1)
% of plan liabilities at end of year	0.0%	0.4%
c. Total actuarial loss recognised in Statement of total gains and losses amount (£ million)	0.8	5.7
% of plan liabilities at end of year	2.4%	20.4%

	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	2003 Total £m	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	2002 Total £m
Reconciliation to the balance sheets						
Fair value of scheme assets	19.9	7.9	27.8	17.1	6.8	23.9
Actuarial value of scheme liabilities	(23.0)	(9.8)	(32.8)	(19.0)	(8.9)	(27.9)
Deficit in the scheme	(3.1)	(1.9)	(5.0)	(1.9)	(2.1)	(4.0)
Related deferred tax asset	0.9	0.6	1.5	0.6	0.6	1.2
Pension liability recognised in balance sheet	(2.2)	(1.3)	(3.5)	(1.3)	(1.5)	(2.8)

The amount of the net pension liability would have a consequential effect on reserves. The assets and liabilities shown for the Vitec Group Executive Pension Scheme include an amount of £0.5 million (2002: £0.5 million) in respect of certain insurance policies which meet part of the benefit entitlement for some pensioners in the Scheme. The value placed on these insurance policies is in addition to the value of the scheme's investments.

Notes to the accounts continued

26 Pension commitments (continued)

	2003 £m	2002 £m
Movement in scheme surplus/(deficit)		
(Deficit)/surplus in schemes at beginning of year	(4.0)	1.7
Movement over year:		
Current service cost	(1.2)	(1.1)
Employer contributions	0.8	0.7
Other finance income	0.2	0.4
Actuarial loss	(0.8)	(5.7)
Deficit in schemes at end of year	(5.0)	(4.0)

27 Related party transactions

During the year the following related party transactions took place.

Lino Manfrotto, a director of Lino Manfrotto + Co Spa, is president and shareholder of Mancor Spa, a company from which Gruppo Manfrotto rents properties used in its business under operating leases that expire at the end of 2006. Abramo Manfrotto, who was Chief Executive of the Photographic and Retail Display Division of The Vitec Group plc until the disposal of the Group's Retail Display Division to Manfrotto SA on 30 December 2003, is a non-executive director of Mancor Spa. Rents paid to Mancor in 2003 totalled €247,634, £171,000 (2002: €242,719, £153,000). At 31 December 2003, there were no outstanding amounts payable to Mancor (2002: Nil). Lino Manfrotto also owned part of a property known as the Campese property leased by Manfrotto + Co. Spa (see third paragraph). Rents paid to Lino Manfrotto during the year totalled €68,629, £47,000 (2002: €67,000, £42,000). At 31 December 2003 there were no outstanding rents payable to Lino Manfrotto (2002: nil).

Abramo Manfrotto is a shareholder and director of Antide Srl, a company specialising in worldwide web sites and e-mail services. Group companies paid Antide a total of €100,944, £70,000 during the year (2002: €70,000, £44,000) for products and services. At 31 December 2003 Gruppo Manfrotto owed Antide €65,899, £44,000 (2002: €29,000, £19,000).

Abramo Manfrotto is also a shareholder of Antide Net Srl, a company specialising in IT consulting. Group companies paid Antide Net Srl a total of €nil during the year (2002: €8,000, £5,000) for services. At 31 December 2002 there were no outstanding amounts payable to Antide Net Srl.

During the year, Reco srl, a subsidiary of The Vitec Group plc that manages the Group's Italian properties, purchased from Lino Manfrotto that part of a property owned by him. The property, known as Campese, is in Bassano del Grappa, Italy and is the base for the Group's Italian operations. The consideration by Reco srl was £0.55 million plus any attributable Italian VAT.

Manfrotto SA, a company controlled by a trustee associated with Lino Manfrotto and Abramo Manfrotto, acquired the Group's Retail Display Division on 30 December 2003 (see note 21).

The purchase of part of the Campese property by Reco Srl and the sale of the Retail Display Division were approved by shareholders on 29 December 2003.

28 Post Balance sheet event

On 8 January 2004, the Group acquired the domestic distribution activity of Multiblitz (Dr. Ing. D. A. Mannesmann GmbH & Co), a distributor of the Group's Manfrotto products in Germany, for €1.9 million (£1.3 million) cash.

Five year financial summary

	2003 £m	2002 £m	2001 (Restated) ⁽¹⁾ £m	2000 £m	1999 £m
Turnover	192.8	182.2	190.4	200.0	171.4
Operating profit before exceptional items and goodwill amortisation and impairment	17.8	24.7	30.6	40.1	38.2
Interest	(1.7)	(1.6)	(2.6)	(2.9)	(1.1)
Profit before tax, exceptional items and goodwill amortisation and impairment	16.1	23.1	28.0	37.2	37.1
Operating cash flow	28.7	34.9	42.1	45.8	51.1
Free cash flow ⁽²⁾	8.3	20.7	18.0	17.6	29.2
Capital employed					
Intangible fixed assets	10.1	11.0	10.8	10.9	10.0
Tangible fixed assets	34.5	42.7	48.5	47.0	37.5
Other net assets	29.8	24.9	34.5	38.5	27.7
Net cash	-	-	-	-	-
	74.4	78.6	93.8	96.4	75.2
Financed by					
Shareholders' funds – equity	60.3	62.9	67.1	63.7	44.2
Minority interest	-	-	-	-	0.9
Net debt	10.4	11.9	22.5	31.0	27.8
Deferred tax	3.7	3.8	4.2	1.7	2.3
	74.4	78.6	93.8	96.4	75.2
Statistics					
Operating profit (%) before exceptional items, goodwill amortisation and impairment	9.3	13.6	16.1	20.1	22.3
Effective tax rate (%)	39.8	39.4	37.1	30.9	30.7
Adjusted basic earnings per share (p) ⁽³⁾	23.9	34.1	42.9	62.8	54.3
Basic earnings per share (p)	13.6	18.3	32.9	56.7	53.3
Dividends per share (p)	22.7	22.7	22.7	21.2	18.5
Year-end mid-market share price (p)	346.0	277.5	425.0	498.0	527.0

⁽¹⁾ On adoption of FRS 19 'Deferred Taxation' in 2002, it was not practical to restate 1999 and 2000.

⁽²⁾ Free cash flow is the cash inflow from operating activities less interest, tax and capital expenditure on tangible fixed assets.

⁽³⁾ Differences between Adjusted basic and Basic earnings per share arise from exceptional items in the years in question and, from 1999, the amortisation of goodwill.

Shareholder information and financial calendar

Shareholder enquiries

For enquiries about your shareholding, such as dividends or loss of share certificate, please contact the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, telephone 0870 162 3100 (UK only) or +44 (0)20 8639 2157 (overseas only).

Online services and electronic voting

Vitec has arranged with Capita Registrars to use its online services. By logging on to www.capitaregistrars.com and selecting Shareholder Account Services you can make a transaction or dividend payment enquiry, add or change a dividend mandate or change your registered address.

Capita Registrars also has an electronic voting facility. By logging on to www.capitaregistrars.com and selecting Shareholder Account Services you will find details of the annual general meeting including the venue and text of the resolutions. Shareholders have the facility to vote for, against or abstain and can split or restrict votes, appoint the Chairman of the meeting or a third party as their proxy and include any instruction text. To do this, and to use the above facilities, shareholders will need to input a unique User ID that can be applied for on your first visit to the site. To be allocated a User ID you will need your Investor Code, which can be found on your dividend stationery and share certificates. User IDs previously issued will still be valid.

Should you experience any difficulties using these facilities please contact Capita Registrars on the numbers given above.

Share price information

The middle market price of a share of The Vitec Group plc share on 31 December 2003, the last dealing day of 2003, was 346p. During the year the share price fluctuated between 235p and 412.5p. The Company's share price is available from the Group's website www.vitecgroup.com, with a 15 minute delay, and from the Financial Times web site www.ft.com with a similar time delay. Up-to-date market information and the Company's share price are available from the Cityline service operated by the Financial Times by telephoning 0906 8434404.

Financial calendar

Annual general meeting	4 May 2004
Ex-dividend date for 2003 final dividend	21 April 2004
Record date for 2003 final dividend	23 April 2004
Proposed 2003 final dividend payment date	20 May 2004
Announcement of 2004 interim results	September 2004
Proposed 2004 interim dividend payment date	November 2004

Analysis of shareholdings as at 31 December 2003

Shares held	Number of holders	% of holders	Number of shares	% of Shares
Up to 1,000	863	57.99	358,612	0.88
1,001 to 5,000	380	25.54	883,694	2.15
5,001 to 10,000	72	4.84	525,357	1.28
10,001 to 50,000	75	5.04	1,928,490	4.70
50,001 to 100,000	30	2.02	2,323,602	5.66
100,001 and over	68	4.57	35,017,546	85.33
	1,488	100.00	41,037,301	100.00
Institutions and companies	479	32.19	37,958,026	92.50
Individuals including directors and their families	1,009	67.81	3,079,275	7.50
	1,488	100.00	41,037,301	100.00

Group directory

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Remuneration report

This report contains the information required under the revised Combined Code and under the Directors' Remuneration Report Regulations 2002. A resolution to approve the report will be proposed at the 2004 annual general meeting. The Chairman of the Remuneration committee will be available to answer questions about directors' remuneration at the annual general meeting.

Remuneration committee

At the commencement of 2003, the Remuneration committee comprised David Bell (Chairman of the Committee), Alison Carnwath, John Potter and Will Wyatt, being all of the independent non-executive directors. On 4 March 2003, the membership of the Committee was reviewed and reconstituted to comply with the recommendation in the Higgs Report into the role and effectiveness of non-executive directors that no one director should sit on all three principal board committees. The result of that review was that, with effect from 4 March 2003, the Remuneration committee comprised David Bell (Chairman of the Committee), Alison Carnwath and John Potter.

On 18 December 2003, the terms of reference of the Committee were reviewed and updated to comply with the revised Combined Code. Under its terms of reference, the Committee, on behalf of the Board, determines the remuneration packages including bonus arrangements, participation in incentive schemes, pension contributions and all other benefits received by the executive directors. In the event of the termination of employment of those directors, the Committee would also determine any compensation payments, after taking appropriate legal advice. The Committee also makes recommendations to the Board, within its terms of reference, on the framework of senior executive remuneration including terms of service, pay structure, bonus and share incentive arrangements and other benefits.

The Chief Executive, Gareth Rhys Williams, attends meetings by invitation of the Committee except when his remuneration is being considered. The remuneration of the non-executive directors is determined by the Board as a whole with the relevant non-executive director abstaining when his or her remuneration is considered.

Remuneration policy

The executive directors' remuneration comprises a basic salary plus company and/or individual performance-related elements of up to 100% of salary. Therefore, if they achieve maximum performance in relation to the performance-related elements of their remuneration, these elements will account for 50% of their total remuneration.

Remuneration packages are formulated to attract, retain and motivate executive directors and senior executives of the quality required, without being excessive, by reference to salary and benefit surveys supplied by external sources. They take into account the responsibilities involved, remuneration packages in comparable companies that have similar international operations, relative performance and both internal and external advice. Remuneration and benefits reflect responsibility and market comparisons.

The notice period by the Company under the service contracts of the executive directors is 12 months. The normal retirement age of executive directors is 60. Basic salary is fully pensioned on a funded basis. Executive directors' service contracts do not provide for pre-determined amounts of compensation in the event of early termination by the Company. The Committee's policy in the event of early termination of employment is to mitigate compensation to the fullest extent practicable.

The Committee believes that in certain specific circumstances it is beneficial for an executive director to be encouraged to take up external non-executive appointments. Remuneration received by a director in respect of such external appointments would be retained by the director.

The Committee currently has no intention of amending the above stated policy for 2004 and future years, although it will be reviewed from time to time.

When reviewing and determining executive and non-executive directors' remuneration, advice is sought and received from external remuneration and benefit consultants and their various

Remuneration report continued

surveys of remuneration and fees and also internally from the Chief executive, Gareth Rhys Williams, and the Company secretary, Roland Peate. Towers Perrin, which was formally appointed in early 2003, has, during the year, provided independent advice to the Committee. In December 2003, the Committee received external and internal advice on the salaries of the executive directors and of the senior management team.

Chairman and the other non-executive directors

The Chairman and the other non-executive directors do not have service contracts but have letters of appointment. The initial period of their appointments is normally three years and may, by mutual consent and with the approval of the Nominations committee and the Board, be extended for a further three years. In exceptional circumstances appointments may be extended beyond six years, by mutual consent and with the approval of the Nominations committee and the Board, if it is in the interests of the Group to do so.

Executive directors

Executive directors' remuneration comprises basic salary, bonus, share incentives, company vehicle or cash allowance, fuel where a company vehicle is provided, medical health insurance, membership of the Group's Executive Pension Scheme, life assurance and additionally, for Gareth Rhys Williams, contributions towards a permanent health arrangement and contributions paid by the Company to a funded unapproved retirement benefits scheme.

It is the Company's policy to make provision for pensions for executive directors in respect of their basic salaries (but not in respect of annual bonuses or benefits) through funded retirement benefit schemes. Up to the maximum salary level permitted by Inland Revenue rules (the earnings cap), retirement benefits are provided through an approved retirement benefit scheme, as shown in the table entitled Pensions related remuneration.

Gareth Rhys Williams, Chief executive, aged 42, is employed under a service contract dated 23 November 2001. The notice period by the Company under his contract is 12 months; notice by the employee is 6 months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to twelve months' gross basic salary together with the gross value of the other benefits that he is entitled to receive under his service contract, but excluding pension contributions and any bonus. The bonus arrangements for 2004 will be calculated on the basis that 100% relate to the achievement of operating profit targets. The unexpired term of Gareth Rhys Williams' service contract, to his normal retirement date, is 18 years.

Alastair Hewgill, Finance director, aged 49, is employed under a service contract dated 17 April 2002. The notice period by the Company under his contract is 12 months; notice by the employee is 6 months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to twelve months' gross basic salary together with the gross value of the other benefits that he is entitled to receive under his service contract, but excluding pension contributions and any bonus. The bonus arrangements for 2004 will be calculated on the basis that 100% relate to the achievement of operating profit targets. The unexpired term of Alastair Hewgill's contract, to his normal retirement date, is 11 years.

Incentive arrangements

The current policy of the Remuneration committee is to make annual awards under the Long Term Incentive Plan to the executive directors and the other members of the Executive Board and grants of conventional share options to the Group's senior management immediately below the level of the Executive Board. Such awards and grants are based on a proportion of salary. Participation in the Deferred Bonus Plan is open to those employees who are members of the Group's bonus scheme and who receive a bonus. There are currently no plans to make any further grants under the Premium Option Plan. Invitations under the Group's Sharesave arrangements are usually made annually. This policy is reviewed at least annually and may be revised from time to time. Such awards and grants take into account the overall and flow limits advised by the Association of British Insurers.

To align the rewards of executive directors and other senior employees more closely with the objectives and interests of shareholders, the performance conditions applicable to the Group's share option schemes and the Long Term Incentive Plan are as set out below and relate to increases in earnings per share over a performance period. The performance condition applicable to the Premium Option Plan is also shown below and relates to a significant increase in the Company's share price. There is no re-testing of performance in respect of grants or awards. Monitoring and measuring of the performance conditions take place at the end of each year when the Company's results have been audited and again at the time of exercise of options and awards.

The Group currently has the following incentive schemes and plans in place under which incentives may be granted:

2002 Executive share option scheme. This is an Inland Revenue approved scheme. Executive directors and other senior employees are selected to receive options over shares. Exercise of an option is subject to growth in the Company's earnings per share, excluding exceptional or extraordinary items, exceeding the growth in the retail prices index over a performance period. The percentage growth over the retail prices index determines the proportion of the award that may be exercised. Options are exercisable between the third and the tenth anniversaries of their dates of grant.

Performance condition: If the percentage growth in the adjusted earnings per share of the Company exceeds the percentage growth in the retail prices index over the 3 year performance period by 3.0301% (the base target threshold), an option will become exercisable in respect of one-third of the shares over which it is held. Full vesting takes place when such growth over the performance period is 9.2727% or greater. A sliding scale operates for performance between the lower and upper thresholds. Options lapse if the base target threshold is not achieved. There is no re-testing of performance.

2002 Unapproved executive share option scheme. Executive directors and other senior employees are selected to receive options over shares. As with the 2002 Executive share option scheme, exercise of an option is subject to growth in the Company's earnings per share, excluding exceptional or extraordinary items, exceeding the growth in the retail prices index over a performance period. Options are exercisable between the third and the tenth anniversaries of their dates of grant.

Performance condition: The performance condition is identical in all respects to the performance condition of the 2002 Executive share option scheme set out above. There is no re-testing of performance.

Long term incentive plan. Under this plan, executive directors and other senior employees are selected to receive awards over shares that vest in whole or in part depending on the satisfaction of a performance condition related to the growth in earnings per share compared to the retail prices index over a performance period.

Performance condition: The performance condition attaching to awards under the plan relate to increase in earnings per share. For an award to vest in its entirety, the increase in earnings per share over the performance period of 3 years must be not less than the increase in the retail prices index plus 36% or more. For an award to vest at its lowest level of 25%, the growth in earnings per share over the performance period must be equal to the increase in the retail prices index plus 9%. Awards lapse if the performance is below 9%. Where growth is between 9% and 36% awards are realisable on a straight-line basis.

Premium option plan. Under this plan, selected executive directors and other senior employees receive options over shares that are granted in the form of two tiers. The exercise price of the first tier is set at 25% in excess of the share price immediately prior to the date of grant; the exercise price of the second tier is set at 50% in excess of that same share price.

Performance condition: First tier options are only exercisable if the average middle market price of the Company's shares increases to, and remains in excess of, the option exercise price for a minimum of 20 consecutive dealing days within three years of the date of grant. Second tier options are only exercisable if the average middle market price of the Company's shares increases to, and remains in excess of, the option exercise price for a minimum of 20 consecutive dealing days within five years of the date of grant. Each tier of options lapses if the share price does not achieve the required threshold within the relevant performance period. Subject to the share price reaching the required threshold, options are exercisable between the third and the tenth anniversaries of their dates of grant.

Deferred bonus plan. Under the plan, an eligible executive may defer between 10% and 50% of his cash bonus in exchange for receiving an award over shares in the Company with a value equivalent, at the date of award, to the amount of the deferred bonus. An award may, in normal circumstances, be exercised by a participant after 2 years. However, if exercise is deferred until after 3 years and the executive remains employed by the Group, the participant is entitled to receive additional shares equal in number to those comprised in the award.

Performance conditions: Bonuses received by participants, and which may be deferred under the plan, are themselves subject to demanding performance conditions linked to Company and/or individual performance. The awards under the plan are not subject to any further performance targets.

2002 Sharesave scheme and International plan. The Group also operates a Savings related share option scheme in the UK and a similar International plan in respect of overseas employees in certain countries. The scheme and plan are open to all the Group's employees in those geographical areas who have the necessary length of service. Under the scheme and plan participants contract to save a set amount each month in return for which they receive an option over a specified number of shares. At the end of the savings period participants may exercise their options to buy shares in the Company using their savings. Exercise is not subject to any performance condition.

Remuneration report continued

Five-year share price performance 1999-2003

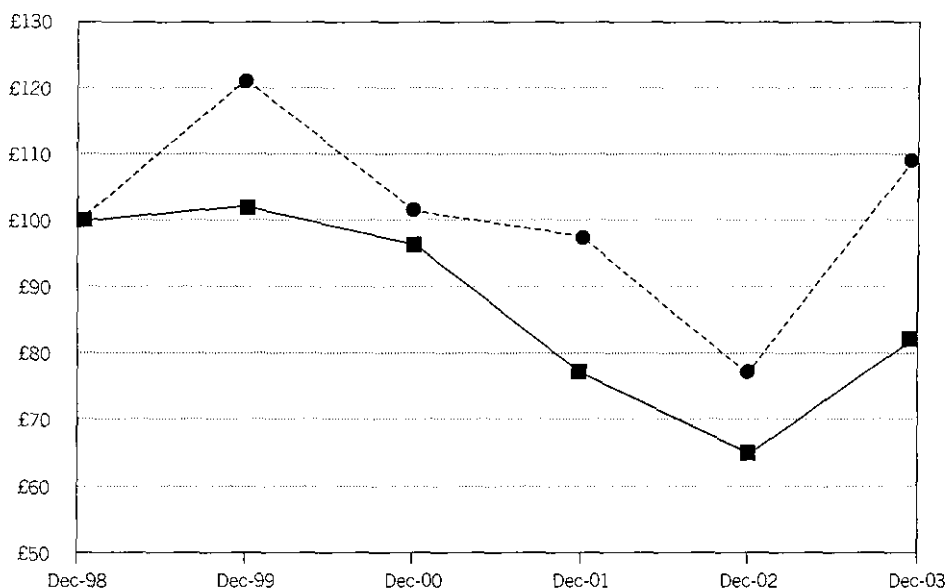
Under the requirements of the Directors' Remuneration Report Regulations 2002, the Company is required to include a graph showing the Company's performance compared to an appropriate index. Set out below, the graph illustrates the Company's annual Total Shareholder Return (share price growth plus dividends that have been declared, paid and reinvested in the Company's shares) relative to the FTSE Engineering and Machinery Index for the five year period 1999-2003, assuming an investment of £100. The Engineering and Machinery Index is the broad market index that includes the Company and comprises comparable companies.

Five-year historical shareholder return performance. Change in the value of a hypothetical £100 holding over five years.

FTSE Engineering and Machinery Index comparison based on 30 trading day average values

FTSE Engineering & Machinery Index

Vitec Group plc



The following information has been audited.

Directors' emoluments and compensation

For her non-executive duties, the Chairman, Alison Carnwath, currently receives a fee of £78,000 per annum. The non-executive directors each receives a fee of £25,000 per annum. The chairmen of the Remuneration committee and of the Audit committee, David Bell and John Potter, respectively, receive an additional £2,500 per annum fee for their services as chairmen of those committees. The Chairman is a member of the Group's medical insurance scheme, the premiums for which are paid by the Company. The non-executive directors do not receive any other benefits from the Company.

Gareth Rhys Williams, Chief executive, currently receives an annual salary of £267,800, increased from £260,000 with effect from 1 January 2004. Mr Rhys Williams is a member of the Vitec Group Executive Pension Scheme and contributes 7% of his salary up to the earnings cap. That pension scheme is a defined benefit scheme, the accrual rate for which is one fortieth of his pensionable salary for each year of pensionable service. In accordance with his service contract, the Company makes contributions of 24% of his annual salary in excess of the earnings cap to his funded unapproved retirement benefits scheme.

In addition, a guaranteed pension-related bonus of 16% of his annual salary in excess of the earnings cap is paid to him. He is eligible for a performance-related bonus, based on Company and/or individual performance, of up to 100% of base salary each year. In respect of 2003, 50% of the bonus was conditional upon the Group's performance and 50% was based on personal performance targets. Mr Rhys Williams received a bonus of £100,000 in respect of 2002 and of £52,000 for 2003.

Alastair Hewgill, Finance director, currently receives an annual salary of £180,000, increased from £155,000 with effect from 1 January 2004. Mr Hewgill is a member of the Vitec Group Executive Pension Scheme and contributes 7% of his salary. That pension scheme is a defined benefit scheme, the accrual rate for which is one fortieth of his pensionable salary for each year of pensionable service. Mr Hewgill is eligible for a performance-related bonus, based on Company and/or individual performance, of up to 100% of annual salary each year. In respect of 2002 he was awarded a discretionary bonus of £27,000 and for 2003 his bonus was £31,000.

Details of the directors' emoluments and compensation for 2003 with comparatives for 2002 are set out in the table below:

Director's name	Salaries and fees		Benefits (Note 1)		Performance related annual bonus		Pension related bonus (Note 2)		Termination payments (Note 3)		Total	
	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £
Chairman												
Alison Carnwath	78,000	75,000	428	468	-	-	-	-	-	-	78,428	75,468
Executive directors												
Gareth Rhys Williams	260,000	250,000	21,198	20,884	52,000	100,000	25,835	24,523	-	-	359,033	395,407
Alastair Hewgill	155,000	94,828	11,068	4,335	31,000	27,000	-	-	-	-	197,068	126,163
Richard Green	-	58,810	-	4,891	-	-	-	-	-	323,862	-	387,563
Non-executive directors												
David Bell	27,500	26,250	-	-	-	-	-	-	-	-	27,500	26,250
John Potter	27,500	26,250	-	-	-	-	-	-	-	-	27,500	26,250
Michael Stacey	-	19,200	-	-	-	-	-	-	-	-	-	19,200
Will Wyatt	25,000	14,041	-	-	-	-	-	-	-	-	25,000	14,041
	573,000	564,379	32,694	30,578	83,000	127,000	25,835	24,523	-	323,862	714,529	1,070,342

Notes

1. The principal benefits are a company car, fuel, medical insurance and life assurance. In respect of Gareth Rhys Williams only, a cash payment of £1,200 per month in lieu of a company car and a contribution of £400 per month to a permanent health arrangement are included in the figures shown for benefits.

2. Gareth Rhys Williams receives a pension-related bonus calculated at 16% of his annual salary in excess of the pensions earnings cap.

3. Information on the termination payment in 2002 is set out below.

During the year the highest paid director was Gareth Rhys Williams who received £359,033 (2002: £395,407(excluding the termination payment made to a director during 2002)).

When termination payments are included, the highest paid director in 2002 was Richard Green who received a total of £431,188 (£387,563 shown in the table above plus a gain of £43,625 on the exercise of a share option). That total included payments in lieu of

salary, bonus, company car benefit, pension-related bonus and contributions to Mr Green's FURBS and represented the Company's mitigated liability, shortened to 15 months, under his service contract. In addition, £5,340 was paid direct to Mr Green's legal adviser in respect of advice he received in connection with the negotiation of his termination arrangements. Mr Green resigned as a director on 13 May 2002.

Remuneration report continued

Directors' share options

	Date of grant	At 1 January 2003	Options exercised or lapsed during year	Options granted during year	At 31 December 2003 or, if earlier, date of resignation as a director	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
Gareth Rhys Williams									
Executive share options									
1996 Unapproved	Sep 2002	142,857	–	–	142,857	350	–	Sep 2005	Sep 2012
SAYE options	Nov 2002	2,451	–	–	2,451	268	–	Jan 2008	Jun 2008
	May 2003	–	–	4,266	4,266	231	–	Jun 2008	Dec 2008
Alastair Hewgill									
SAYE options	May 2003	–	–	7,110	7,110	231	–	Jun 2008	Dec 2008
		145,308	–	11,376	156,684		–		

Notes

1. In November 2001, a share price related cash bonus scheme was adopted under which an award equivalent to an option over 142,857 shares, at a price of £3.50 per share, was made to Gareth Rhys Williams. This was replaced on 19 September 2002 by an equivalent option over 142,857 shares at the same exercise price of £3.50 per share under the Rules of the (1996) Unapproved Executive Share Option Scheme, the Scheme used as the comparable for the cash bonus scheme. There is a transitional arrangement for the cash bonus scheme to run in tandem with the share option. If, and to the extent that, the cash bonus is not triggered by Mr Rhys Williams prior to the first occasion upon which he becomes entitled to exercise the share option granted on 19 September 2002, the cash bonus scheme will lapse and will be replaced by the share option.

2. Non-executive directors are not eligible to participate in the Company's share option or share incentive schemes and consequently they do not hold any share options or other share incentives.

3. The total gain on the exercise of options by the directors during 2003 was nil (2002: £43,625) as no options were exercised.

4. The share price at the end of the year and the highest and lowest prices during the year are shown on page 72.

Directors' long term incentives

Awards under the Long term incentive plan	Date of award	Market price of a share at the date of award (pence)	Awards at 1 January 2003 (shares)	Awards exercised or lapsed during the year (shares)	Awards made during the year (shares)	At 31 December 2003 or date of resignation as a director (shares)
Gareth Rhys Williams	Mar 2002	442.5	28,248	–	–	28,248
	Mar 2003	257.5	–	–	50,485	50,485
Alastair Hewgill	Sep 2002	342.5	21,898	–	–	21,898
	Mar 2003	257.5	–	–	30,097	30,097

Awards under the Deferred bonus plan

	Date of award	Market price of a share at the date of award (pence)	Awards at 1 January 2003 (shares)	Awards exercised or lapsed during the year (shares)	Awards made during the year (shares)	At 31 December 2003 or date of resignation as a director (shares)
Gareth Rhys Williams	Jun 2003	345	-	-	7,705 Basic	7,705
	Jun 2003	345	-	-	13,755 Matching	13,755
Alastair Hewgill	Jun 2003	345	-	-	1,651 Basic	1,651
	Jun 2003	345	-	-	2,947 Matching	2,947

Pensions related remuneration

	Accrued pension at 31 December		Increase in accrued pension (in excess of price inflation) during		Member contributions towards pension		Transfer value of the increase in accrued pension net of member contributions		Transfer value of accrued pension at 31 December		Increase in transfer value over year to 31 December net of member contributions
	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £	2002 £	2003 £
Gareth Rhys Williams	5,156	2,633	2,478	2,434	6,899	6,773	9,058	7,196	33,874	15,444	11,531
Richard Green	-	25,110	-	1,657	-	3,400	-	10,904	-	274,858	-
Alastair Hewgill	5,225	1,890	3,303	1,890	10,763	6,125	20,458	9,802	50,321	16,234	23,324

Beyond the earnings cap, the cost of pensions comprised defined contribution payments to FURBS as follows: Gareth Rhys Williams £38,748 (2002: £36,780). Richard Green left the company on 30 June 2002 and therefore no payments have been made during 2003 to his FURBS. For the period from 1 January 2002 to the date of his leaving on 30 June 2002 contributions totalled £8,548.

By order of the Board

Roland Peate
Secretary
1 March 2004

