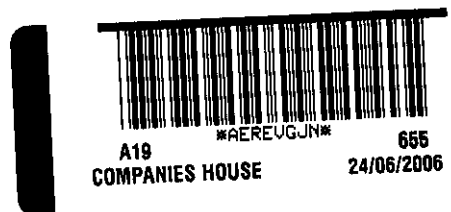


company number: 227691

vitecgroup

annual report 2005



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The Year in Review

The Vitec Group continued to make good progress during 2005. For the second year running sales moved ahead due to new product launches and acquisitions. This, taken together with the benefits of the restructuring programme initiated in prior years, meant we produced a strong operating profit performance.

With favourable market conditions and exciting product ranges, strong divisional management teams and the potential to make further acquisitions, the Board expects further growth during 2006.

- Sales growth of 5%, both in constant currency and as reported, following on from a strong 2004
- Photographic sales up almost 11%
- Profit before tax* of £18.4 million, an increase of 17% in constant currency, 11.5% as reported
- Basic earnings per share* of 26.0p, up 17%
- Cash generated from operations of £29.8 million
- Leading professional camera bag business acquired - Kata
- Total dividend of 15.5p per share, up 3%.

* from continuing operations and before significant items (see Note 5 to the Consolidated Accounts on page 48).

** For 2001, 2002 and 2003, before exceptional items, goodwill amortisation and impairment. For 2004 and 2005, before significant items (see Note 5).

*** 2001 restated for FRS 19 Deferred Tax Standard.

Accounts for 2001, 2002 and 2003 were prepared in accordance with UK GAAP accounting policies. Accounts for 2005 and comparable figures for 2004 were prepared in accordance with IFRS as adopted for use in the EU.

Chairman's & Chief Executive's Statement

We are delighted to report a year of continued progress for The Vitec Group. Sales continued to move ahead due to new product launches and acquisitions, and this, together with the benefits of the restructuring programme initiated in prior years, resulted in a strong operating profit performance.

Results

2005 saw revenue continue to grow. Following the very strong growth in 2004 we are pleased to report a further revenue increase of 5%, both in constant currency terms and in reported pounds sterling, of which organic growth accounted for 4%. This growth represents a strong performance for Vitec, which has seen revenue reductions in previous post-Olympics years.

The Photographic division generated sales growth of almost 11% as it benefited from products launched to capitalise on the growth in the wider photographic market, particularly of digital SLR cameras, and from the strength of our in-house distribution, particularly in the US and Germany. Growth also came from demand for our innovative lighting truss systems. Kata, acquired in May, contributed 1% to overall Group sales growth; we had already been distributing its camera bags in the USA for several years.

Revenue in Broadcast Systems was up 5% as a result of a revival in interest for studio products, particularly for camera supports, and the portable power business had another excellent year. In Communications, the market remained tough, but new products launched in the last two years began to build volume.

Broadcast Services saw significant growth in 2004, benefiting from the Olympics and a number of large reality TV show contracts. In 2005 the growth in the underlying market was insufficient to compensate for some of these large events not recurring and sales were down 9%.

Costs continued to be kept under tight control and the benefits of previous restructuring actions came through as planned.

As a result, profit before tax and significant items* grew 17% in constant currency terms and 11.5% in pounds sterling. Excluding acquisitions, the reported growth was 15% in constant currency and 10% in pounds sterling. Although foreign exchange movements, after hedging, reduced reported operating profit by £0.9 million, this effect was more muted than the £4.8 million experienced in 2004.

Basic earnings per share before significant items* were 26.0p (2004: 22.2p), an improvement of 17%. The Group attracts a relatively high reported tax charge due to the high tax rates of the countries in which the Group derives its profit, nevertheless actions taken to improve the efficiency of the Group's tax structure resulted in a welcome reduction in the reported tax rate to 42% (2004: 45%). During 2005, tax paid was £1.6 million as certain tax credits were utilised.

After significant items*, profit before tax from continuing operations was up 20% to £17.1 million (2004: £14.2 million) and earnings per share were 22.9p (2004: 18.8p). After including the release of a provision of £0.4 million related to a business sold in 2003, earnings were 23.9p (2004: 18.8p).

Cash generated from operations of £29.8 million (2004: £22.5 million) remained strong. The low tax payments and improvements in stock control meant that closing net debt fell to £5.4 million (2004: £11.3 million), despite the acquisition of Kata and additional contribution to the UK pension scheme.

** Significant items are those items of financial performance that the directors consider should be separately disclosed to assist in the understanding of the underlying trading and financial performance achieved by the Group and in making projections of future results. These items are quantified both in the Financial Review and in Note 5.*

Strategy update

The results above show the success of the 'Consolidate – Leverage – Grow' strategy. The major restructuring process, started in 2002, is complete and we are seeing the benefits of operating as larger units. Each of our businesses is now engaged in continuous improvement activities, ranging from further movement of production to lower cost countries, to exploiting the better information generated by the IT systems recently put in place, to improving our purchasing performance. This work will carry on but the emphasis is now on generating growth. Vitec's organic growth comes from the ability of our brands to constantly launch new and exciting products and services that customers value. In 2005, as in 2004, the Photographic and Broadcast Systems divisions spent some 5% of sales on R&D, a level that will be maintained into 2006. As in previous years, this effort generated products that attracted acclaim, which we expect to convert to future revenue.

The Board also believes that acquisitions will form an important part of Vitec's future growth. We continue to look to acquire companies, either with complementary products or with distribution channels that will enhance our existing capabilities.

At the end of May 2005 we acquired Kata, a leading designer and manufacturer of technically advanced camera bags, based in Israel. The acquisition consideration was US\$8.5 million (£4.7 million), with up to a further US\$13 million (£7.1 million) consideration payable based on the business's performance in 2005-07. Bags represent a complementary product area to those products we already sell, as they are bought by the same customers who are attracted to our other photographic accessories. Kata is performing well and continues to grow ahead of our expectations.

On 16 January 2006 we completed the acquisition of Petrol, another bags business, also based in Israel. Both Kata's and Petrol's products have been distributed by Vitec companies for a number of years. The combination of these two companies will deliver coordinated and powerful new product ranges in both the broadcast and high-end photographic camera bag markets.

Vitec's continued success wouldn't be possible without the continued hard work and dedication shown by all of our colleagues around the world throughout a period of considerable change, for which we would like to thank them.

2005 dividend

Given the improved results and the more stable currency situation, the Board is proposing a final dividend of 9.4p per share, resulting in a full year total of 15.5p per share, an increase of 3%. Using basic earnings per share before significant items*, the dividend is covered 1.7 times (2004: 1.5 times), whilst after significant items*, it is covered 1.5 times (2004: 1.3 times). Our dividend policy, as previously communicated, is to move over a period of two to three years towards an average dividend cover of around two times, and this proposed payment continues the implementation of that policy.

Board changes

As previously announced, John Potter will stand down following the AGM in May 2006. John joined the Board in February 1999 and we thank him for his advice, which has been invaluable in seeing the Group through a period of substantial change.

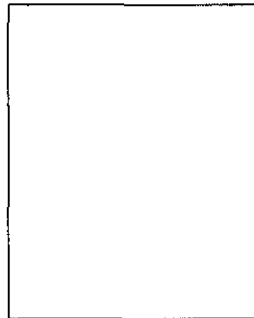
We are delighted that Simon Beresford-Wylie joined the Board as a non-executive director on 1 March 2006. Simon is presently Executive Vice President & General Manager, Networks for Nokia. He is a member of the Nokia Group Executive Board. He has spent much of his career working in Australia, India and South East Asia. He will bring useful insights into those countries and the fast-moving consumer electronics marketplace, which is of increasing relevance to Vitec.

Sir David Bell, who has completed almost nine years as a director, stood down as Senior Independent Director on 1 March, but remains a director. Will Wyatt has taken over the role of Senior Independent Director.

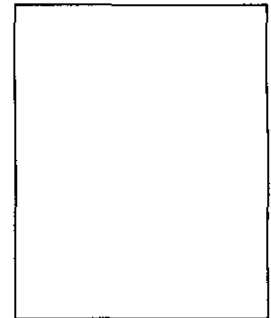
Outlook for 2006

The last months of 2005 saw a marked pick up in activity in the Broadcast Camera business, part of which was related to the forthcoming football World Cup in Germany. We have seen this momentum continue into the first quarter of 2006 and expect to see continued growth in our Photographic business during the year, underpinned by the continued penetration of digital SLR cameras.

With favourable market conditions and exciting product ranges, strong divisional management teams and the potential to make further acquisitions, the Board expects further growth during 2006.



Michael Harper
Chairman



Gareth Rhys Williams
Chief Executive

Photographic - Products primarily for professional photography and events industries

Activities

Design and manufacture of high quality equipment principally for photography, video, live events and cinematography professionals. Distribution of in-house and third party photographic accessories.

Products

Photographic and video camera tripods and heads. Lighting stands, grips and accessories. Lighting and scenery suspension equipment. Camera bags. Live entertainment and exhibition lighting suspension structures. Products distributed include flash units, light meters and filters.

Locations: France, Germany, Hong Kong, Israel, Italy, USA

Broadcast Systems – Products and systems primarily for broadcast applications

Activities

Design and manufacture of high quality equipment used principally by broadcast and live entertainment professionals. Focused on studio and outside broadcast and film production markets with applications in the air traffic control and government markets.

Products

Manual and remotely controlled camera support pedestals, tripods and heads for demanding TV applications. Camera and equipment bags. 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 wired and wireless intercom systems.

Locations: China, Costa Rica, France, Germany, Israel, Japan, The Netherlands, Singapore, UK, USA

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

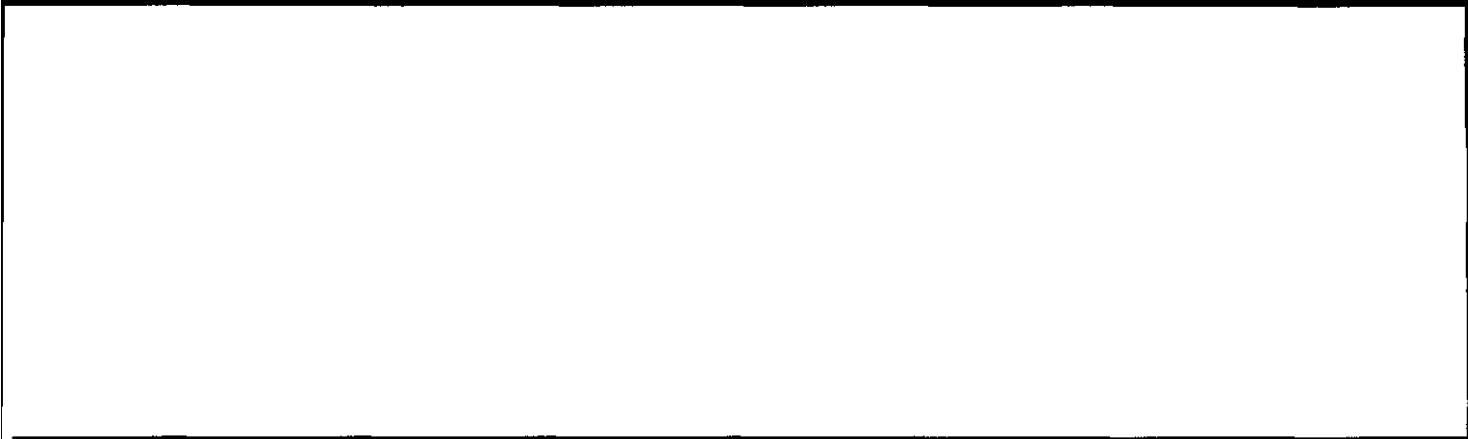
Activities

Rental services and selected sales of camera, video, wireless communication and audio equipment, including engineering support for the film and TV programme production markets.

Products

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.

Location: USA



Photographic Division

Products primarily for professional photography and events industries

Overview

The Photographic division, based in Italy, designs, manufactures and distributes premium products principally for the professional photographer and keen amateur or 'prosumer'. These include imaging products such as camera tripods and monopods, lighting stands and camera bags, as well as lighting structures for studios and outside events, which are all 'in-house' brands. Additional products distributed on behalf of third party manufacturers include flash units, light meters and filters. Most products reach the end customer through local retailers.

Strategy

Originally a manufacturer of professional lighting stands, the Manfrotto business diversified into camera supports, also for the professional. The professional market is relatively static, but as the prosumer market is booming with the rapid uptake of digital photography, we have been targeting the latter sector with new products. The expansion of Bogen Imaging, the division's distribution arm, will allow much closer contact with the end customer and the local retailers. The market for outdoor lighting and rigging structures has also been growing and we are addressing this by focusing on innovation and the supply of equipment to key projects. To aid the development of this strategy the division has been reorganised around the Imaging Accessories, Distribution and Lighting Structures areas.

2005 performance

Sales in the division were up by almost 11% to £76.2 million (2004: £68.7 million), with operating profit before significant items* up almost 10% to £13.6 million (2004: £12.4 million). Operating margin was down slightly due to the lower dollar/euro exchange rates post-hedging and to some changes in mix, principally greater sales of Litec product outside Italy, where lower margins are realised.

Whilst all parts of the division showed sales growth, a significant step in implementing the strategy was the acquisition of Kata, a leading supplier of professional bags and protective equipment. Kata continues to grow strongly, recently relocating to new premises, and is implementing the division-wide ERP system that will link it to our own distribution companies.

Towards the end of 2005 we finished the development of the new 'Modo' product. Continuing Manfrotto's tradition of ground-breaking innovation, it combines a still and video camera head on a tripod aimed at the prosumer. It is being manufactured in China.

During the year the operations of Gitzo France were centralised in Italy, improving operational effectiveness and reducing costs. A project to rationalise two further Italian sites commenced that will see some further products outsourced to China.

Bogen Imaging continued to grow strongly, selling both in-house and third party brands. It benefited from the strength of the US economy, as well as from the strong performance of Bogen Imaging GmbH, acquired in 2003.

Litec and IFF were combined to form the Lighting Structures unit, which is now based in Litec's new facility near Venice, having outgrown the previous site. Litec completed the implementation of the divisional ERP system and continued to see strong growth throughout western Europe. Litec's products continued to gain widespread recognition for their design and ease of use.

| | 2005 | 2004 |
|-------------------|--------|--------|
| Revenue | £76.2m | £68.7m |
| Operating profit* | £13.6m | £12.4m |
| Operating margin* | 17.8% | 18.0% |

*Before significant items. Significant items are profit on sale of property of £0.3 million (2004: £nil), amortisation of intangible assets of £0.2 million (2004: £nil) and restructuring costs of £nil (2004: £0.1 million reversal of provision)

TV Technology Mario Award
2005 for Manfrotto's
Fig Rig

Pick Hit Award 2005 for
Manfrotto's Fig Rig

4EverGroup's Event Video Product Innovation Award
for Kata's HB 207 Hiker Backpack

EventDV Readers' Choice
Award 2005 for Manfrotto's
MagFiber and Digi tripods

Broadcast Systems Division

Products and systems primarily for broadcast applications

Overview

The Broadcast Systems division, with its major businesses in the US, Germany and the UK, provides equipment principally for the professional video cameraman and studio or outside broadcast production teams, which are generally sold either direct to the customer or through specialist dealers. The operating units, where Vitec brands are acknowledged leaders, are Camera Support, including lighting systems, Portable Power systems, and Communications.

Strategy

Following the decline in the broadcast market and the changes in camera technology, we have consolidated the division into fewer, larger business units and are now able to manufacture at lower cost and devote more resources to product development. By introducing exciting and innovative new products we will be able to stimulate the market and grow sales and profits. Additionally we are looking to expand in markets outside broadcast and entertainment where we have relevant technology and products.

2005 performance

2005 saw significant top and bottom line improvements as a result of an upturn in the Broadcast and Live Entertainment markets and the benefits from the restructuring programmes, particularly in our Camera Support business. The establishment of our Beijing office in 2004 led to substantial sales in mainland China, especially in sports and news-driven camera support applications. Overall revenue in 2005 grew by 5.3% to £91.5 million (2004: £86.9 million). Divisional profitability improved as a result of the additional volume and through tight control of costs. With the new structure in place, further opportunities to improve purchasing and simplify logistics have been taken. Operating profit before significant items* rose to £5.2 million (2004: £3.8 million), as these benefits coincided with a more benign foreign exchange environment.

The division continued to launch new products that command attention in the marketplace. In Camera Support, following the acquisition of Radamec Broadcast Systems in 2003, the Robotic business was rebranded Vinten-Radamec. A single control system for all existing Robotic products was launched at the IBC show in

September 2005, allowing customers to add new products to either type of existing Radamec or Autocam system. The new control system allows users to select either style of user interface and even to switch between operators or between shows whilst retaining shot definitions. Most significantly, the demand for studio products increased steadily from the low point in Q1 2004, possibly driven by early purchases for the Turin Winter Olympics and football World Cup. Sachtler saw broad acceptance for its new range of 'Speedbalance' video camera mounting heads which give a much finer control of the balance function whilst retaining the repeatable stepwise setting for which Sachtler is renowned.

Anton/Bauer, celebrating its 35th year in business, again produced a good result. Noteworthy was the delivery of a unique power source designed exclusively for Panavision's Genesis HD Super 35 Digital Cinematography camera system, introduced as more and more film studios replace their traditional celluloid-based cameras.

In Communications, the integration of Drake and Clear-Com has led to a large increase in sales in Europe and the Middle East. A revolutionary 'Voice over IP' intercom product will start to contribute to sales in 2006, and the CellCom wireless intercom was approved for use in the USA in November 2005. While the market for Communications remained very tough, these new, higher margin products launched recently are beginning to build volume. With all of the initial contracts for Air Traffic Control (ATC) projects now completed, and now we are an established supplier, the focus has switched to driving up margins. The roll-out of the divisional ERP system continued, with the Cambridge site going live in January 2006.

The acquisition of Petrol, whose camera bags had been distributed by Sachtler for three years, was completed in January 2006. The acquisition widens the division's product range, positioning it well for future growth.

| | 2005 | 2004 |
|-------------------|--------|--------|
| Revenue | £91.5m | £86.9m |
| Operating profit* | £5.2m | £3.8m |
| Operating margin* | 5.7% | 4.4% |

*Before significant items. Significant items are restructuring costs of £0.9 million (2004: £2.2 million) and goodwill impairment of Enil (2004: £0.7 million)

TV Technology's Star Award 2005 for
Clear-Com's CellCom and Eclipse Pico

4EverGroup's Event Video Product Innovation Award
for Anton/Bauer's Dionic 90 Battery Pack

Best Product Award for
Clear-Com's FreeSpeak at
the BIRTV2005 show in Beijing

Broadcast Services Division

Rental services and technical support mainly for the broadcast market

Overview

The Broadcast Services business provides rental equipment and technical support for events, principally in the US, from a network of ten depots across the US. With a reputation for superior service and knowhow, Bexel equipment and people are found on the most demanding shows. The division provides both video and audio services and acts as an integrator for complex audio systems.

Strategy

With a unique geographical footprint, Bexel has a great advantage in offering pan-US services, which we aim to exploit. With a reputation for technical excellence, we have the ability to offer rentals that require complex engineering, either in preparation for an event or as the show is made. Bexel can also provide broadcast networks that are looking to outsource services such as equipment maintenance, and rentals that incorporate future technical upgrades.

2005 performance

Sales were down £2.6 million (9.0%) following a very strong 2004. Operating profit before significant items* was down £0.4 million to £1.2 million (2004: £1.6 million), reflecting the rigorous cost control environment that the business operates within.

At the end of 2004 we had hoped that the buoyant market that had supported the 10.4% increase in revenues achieved that year would continue into 2005 and more than outweigh the Athens Olympics and US Presidential election revenues falling out. That did not prove to be the case, partly because fewer new large reality TV shows were launched that needed our level of technical services during the year, although we did win renewals on the top shows that we already support. We also added several shorter and smaller scale new series, including Channel 5's 'Killer Shark Live'. A number of large, lower margin projects from 2004 did not repeat in 2005 which reduced our turnover, but without a proportionate effect on operating profit.

We also entered into our first substantial agreements with domestic television networks that span multiple seasons for various types of speciality equipment, including high definition super slow-motion camera systems. One example is the agreement with NBC to supply them with high definition content management and replay systems and support for the Turin and Beijing Olympics.

We continued to fulfil more of our contracts with our own equipment rather than with expensive subrentals from third parties. Those cost savings dropped through to operating profit, offsetting the reduction in turnover.

Going forward into 2006, we have built a '3G Live' prototype that provides an independent production stream for near-real-time delivery of alternative content from live event venues, primarily for distribution to the web, mobile phones and other new media devices. We became an authorised Apple Broadcast Services Partner, and have demonstrated the prototype to a number of major network and production customers. It has recently been used for editing the TWI/IMG 'Olympus Fashion Week', webcasting through MSN. With our new Chief Technology Officer on board, Vitec will be the major sponsor of the 2006 Techforum, an event at which the leaders of US broadcasting meet to learn about technical events in the industry.

Although neither the Techforum nor the '3G Live' system will provide significant revenues by themselves in 2006, they are keeping us in closer contact with customers who often then end up renting other equipment and services from us. They also reinforce our image as a leading solutions and services provider as distinguished from more commoditised 'box renters' that add little value beyond fulfilling orders.

| | 2005 | 2004 |
|-------------------|--------|--------|
| Revenue | £27.2m | £29.8m |
| Operating profit* | £1.2m | £1.6m |
| Operating margin* | 4.4% | 5.4% |

*Before significant items. Significant items are negative goodwill of £nil (2004: £0.6 million)

Financial Review

The table below sets out an analysis of the causes of movements in operating profit before significant items* between 2004 and 2005. Whilst the variances are based on management's best estimates and are not a statutory presentation, they help to explain the underlying changes in the business during the year.

Operating profit before significant items* 2004-05 Variance Analysis (£m)

Revenue increased by £9.5 million to £194.9 million, or 5.1% in the year. Of this, £6.7 million (3.6%) was like-for-like, £2.2 million (1.2%) was due to acquisitions and £0.6 million (0.3%) favourable foreign exchange. Sales growth was particularly strong in the USA and EMEA but flat in Asia. Acquisition growth came principally from Kata, the Israeli bags maker, which was acquired on 31 May, together with a full year contribution from Charter US.

Operating profit before significant items* was £20.0 million, £2.2 million or 12.4% greater than 2004. Before adverse foreign currency effects of £0.9 million, the increase in profit was £3.1 million or 17.3%. Despite hedging its foreign exchange transaction exposure, the Group suffered from the weaker US dollar against the euro, particularly in the first half year. The Group's operating profit* margin increased from 9.6% to 10.3%.

Restructuring costs were £0.9 million (2004: £2.1 million) which principally arise from the previously-announced restructuring plans within the Broadcast Systems division enabling the Camera Support and Communications businesses to operate in a more integrated manner. It is expected that the overall charge for these plans will be between £4.0 and £5.0 million, as previously announced, with £3.0 million having now been charged.

The charge for goodwill impairment was £nil (2004: £0.1 million). Amortisation of the intangibles acquired in Kata (see below) for the seven months of ownership was £0.2 million. These have been included as significant items.

Significant items totalling £1.3 million were principally the above restructuring costs of £0.9 million, amortisation of intangibles for Kata of £0.2 million and other financial expense of £0.5 million (of which £0.3 million relates to the reduction in the value of foreign exchange options due to FX market volatility, and £0.2 million relates to currency losses on loans not accounted for as net investment hedges), offset by the profit on the sale of a factory building in Italy for £0.3 million.

Taxation The effective taxation rate on operating profit after net finance expense but before significant items* was 42% (2004: 45%). The reduction in the tax rate is due principally to progress made in reducing its unrelieved UK tax losses. The Group's tax

charge is relatively high because all of its profits arise overseas in high tax jurisdictions. (Note: the application of IFRS increased the effective tax rate for 2004 by some 3% compared to UK GAAP, due to changes in the accounting for deferred taxes).

Discontinued operation The £0.4 million credit relates to the release of the remaining provision for the upgrade of retail units in the ALU business, which was divested in 2003.

Acquisitions On 31 May 2005 the Group acquired the business and assets of Kata, the Israeli designer and manufacturer of premium protective carrying bags for cameras and accessories in the photographic and broadcast markets. The consideration, including acquisition expenses, amounted to £4.7 million. Based on an assessment of the fair value of assets acquired, £0.7 million was attributed to tangible assets, £1.4 million to intangible assets (before a contingent tax liability of £0.3 million) and £2.9 million to goodwill. The amortisation of intangibles for the seven months was £0.2 million. An earnout of up to US\$13.0 million (£7.1 million) is payable based on sales and profit performance for 2005-07. Following the 2005 performance, the estimated earnout provision has been increased from US\$3.6 million (£2.0 million) at half year to US\$4.6 million (£2.5 million).

Cash flow and net debt Cash generation remained strong, with net debt reducing by half to £5.4 million (2004: £11.3 million), despite the acquisition of Kata (above) and a one-off £2.1 million contribution to the Group's two UK pension schemes which were then merged. The principal reasons were operating profit generation and tax paid of only £1.6 million compared to a tax charge of £7.7 million.

Net Debt and Free Cash Flow

Cash generated from operations was £29.8 million (2004: £22.5 million) equating to 73p a share (2004: 55p). Capital expenditure and financial investments were £11.7 million (2004: £10.0 million), of which £5.4 million (2004: £5.1 million) related to rental assets, partly financed by the proceeds from rental asset disposals of £1.2 million (2004: £1.1 million).

Working capital efficiency improved. Inventory decreased by £1.3 million to £31.3 million, whilst stock days decreased to 99 (2004: 109 days). Trade receivables increased by £4.3 million to £30.5 million, reflecting high sales in December which also contributed to higher debtor days of 57 (2004: 52 days).

Tax paid in 2005 of £1.6 million was similar to 2004 (£1.4 million). The current year benefited again from Italian tax credits arising from the sale of the ALU business in 2003, as well as a

* Significant items comprise restructuring costs, goodwill impairment and negative goodwill, amortisation of acquired intangibles, profit on sale of property and fair value adjustments relating to volatile financial instruments.

£0.7 million UK tax rebate. Tax payments in 2006 will equate more closely to the 2006 current tax charge.

Treasury 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.

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

As in previous years, a portion of the transactions of subsidiaries in foreign currencies is hedged 12 months forward, as set out below. In 2005, due to the relative strength of the US dollar, some cover was also taken out for the first half of 2007.

| Currency millions | December 2005 | Average Rate | December 2004 | Average Rate |
|-------------------------------------|---------------|--------------|---------------|--------------|
| US Dollars sold for Euros | | | | |
| Forward contracts | \$22.9 | 1.22 | - | - |
| Options** | \$17.7 | 1.24 | \$16.0 | 1.21 |
| US Dollars sold for Sterling | | | | |
| Forward contracts | \$15.5 | 1.78 | \$3.7 | 1.80 |
| Options** | - | - | \$1.7 | 1.84 |

** Includes cylinder options, where the mid-point of range is taken

The Group does not hedge its foreign currency profits. Foreign currency net assets are not hedged other than by normal Group borrowings.

Financing activities The Group's principal financing facility is a five-year £100 million committed multicurrency revolving loan agreement involving five banks, expiring on 24 January 2010. At the end of December, £17.2 million of the facility was utilised.

The average cost of borrowing for the year was 4.6% (2004: 4.8%) with the upward trend in interest rates being partially mitigated by converting the remainder of the Group's sterling loans into euros and US dollars. Net interest cost (consisting of net interest payable and commitment fees) was £1.3 million (2004: £1.6 million). Net interest cover (using operating profit before significant items) remained high at 15 times (2004: 11 times).

UK pensions At the end of 2003 the Group closed both of its UK defined benefit schemes to new members. In November 2005 the two schemes were merged. As at 31 December 2005 the number of active members in the newly-merged scheme had reduced by 13% to 201 (2004: 232). Total scheme members are 662 (2004: 676). From the beginning of 2004 a Group personal pension plan was made available for new employees, currently with Standard Life.

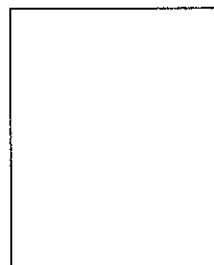
A triennial actuarial valuation was undertaken as at 5 April 2004. On the basis of the assumptions adopted, the value of the schemes' assets (£28.3 million) was equal to 94% of the value placed on the benefits that had accrued to members allowing for

expected future increases in salaries. As a result of the valuation regular contributions were increased by £0.2 million per annum with effect from the date of valuation. In addition, employees' contributions were increased from 1 January 2005. In November 2005 the Group contributed £2.1 million to fund the deficit highlighted by the 2004 triennial valuation and, also, to facilitate the merger of the two schemes to reduce ongoing administration costs.

Following the funding actions set out above, the Group's UK defined benefit pension liabilities under IAS 19 (amended) as at 31 December 2005 were estimated by the Group's actuaries to be £42.0 million (2004: £36.5 million) and the deficit £3.1 million (2004: £5.8 million). The principal assumptions used for the valuations are set out below.

| | 2005 | 2004 |
|----------------------------------|--------------------|--------------------|
| Inflation rate | 2.8% | 2.8% |
| Expected rate of increase in: | | |
| Salaries | 4.8% | 4.8% |
| Pensions and deferred pensions | 2.8% | 2.8% |
| Discount rate | 4.8% | 5.3% |
| Long term rates of return | | |
| Equities | 7.8% | 7.9% |
| Bonds | 4.3% | 4.8% |
| Property | 6.3% | 6.8% |
| Longevity | | |
| Pensioners currently aged 65 | 84/87 [†] | 84/87 [†] |
| Non-pensioners currently aged 45 | 86/89 [†] | 86/89 [†] |

[†] male/female



Alastair Hewgill

Alastair Hewgill

Cautionary statement These statements contain forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Board of Directors

Michael Harper BSc Eng, MSc

Chairman, non-executive, British, aged 61, appointed to the Board on 14 June 2004, became Chairman on 1 November 2004; Chairman of the Nominations Committee. Currently non-executive director of Ricardo plc, Umeco plc, BBA Group plc and Hamilton, Bermuda-Catlin Group Limited. Formerly Chief Executive of Kidde plc and held senior roles with Vickers plc.

Gareth Rhys Williams BSc, MBA

Chief Executive, British, aged 44, 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 studying for his MBA at INSEAD. He is a chartered mechanical and electrical engineer.

Alastair Hewgill BSc, ACMA

Finance Director, British, aged 51, 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.

Sir David Bell MA

Non-executive, British, aged 59, appointed to the Board on 12 March 1997; stepped down as the Senior Independent Director on 1 March; member of the Nominations 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.

Simon Beresford-Wylie BA

Non-executive, independent, British, aged 46, appointed to the Board on 1 March 2006; member of the Audit Committee, the Nominations Committee and the Remuneration Committee. Currently Executive Vice President and General Manager of Networks at Nokia having joined in 1998 from Indian mobile operator Modi Telstra (Pte. Ltd.) where he was Chief Executive Officer. Prior to that he held various management positions within Telstra's Corporate and Government Business Unit.

Nigel Moore FCA

Non-executive, independent, British, aged 61, appointed to the Board on 1 March 2004; Chairman of the Audit Committee, member of the Nominations Committee and of the Remuneration Committee. Formerly a London based partner of Ernst & Young. Currently Chairman of TEG Environmental plc, a Director of IntelligentComms Limited and Vanco Energy Company and a Trustee of the Butten Trust.

John Potter CEng, MIEE, AMBIM

Non-executive, independent, British, aged 62, appointed to the Board on 1 February 1999; Member of the Audit Committee, the Nominations Committee and the Remuneration Committee. Formerly a director of the TI Group plc until his retirement at the end of 1998 and President and Chief Executive Officer of Oxford Automotive, Inc until his retirement at the end of June 2004. John will be retiring from the Board after the Annual General Meeting for 2006.

Will Wyatt CBE, BA

Non-executive, independent, British, aged 64, appointed to the Board on 10 June 2002; became the Senior Independent Director on 1 March; member of the Audit Committee and the Nominations Committee and Chairman of the Remuneration Committee. Currently Chairman of Human Capital Limited, Chairman of the University of the Arts London, Governor of Magdalen College School, Oxford and Director of Racing UK Limited and Racing UK Holdings Limited. Formerly Chief Executive, BBC Broadcast. Other posts within the BBC included Managing Director of Network Television.

Roland Peate FCIS, ACMA

Secretary

Directors' Report

The directors present their report and the audited accounts of the Group for the year ended 31 December 2005.

Review of the Group and its activities

The performance and activities of the Group during the year are set out in the Chairman's and Chief Executive's Statement, the Financial Review and the Business Review pages.

On 31 May 2005 the Group completed the acquisition of the business and assets of Kata International Limited and Kata Professional (Kimchi & Tishler) Limited for an initial cash consideration of US\$8.5 million (£4.7 million) and contingent consideration of up to US\$13 million (£7.1 million) conditional upon future sales and profitability targets.

On 19 December 2005 the Group signed an agreement to purchase the Petrol Bags business of Band Pro Digital and Video Inc. The acquisition was completed on 16 January 2006.

Results and dividends

The Group's profit on ordinary activities before tax and significant items amounted to £18.4 million (2004: £16.5 million). Profit from continuing operations, but after significant items, amounted to £17.1 million (2004: £14.2 million).

The directors recommend a final dividend of 9.4p per share (2004: 8.9p). If approved, the dividend per share for the year will total 15.5p (2004: 15p). Subject to approval by shareholders, the final dividend will be paid on 26 May 2006 to shareholders on the register on 28 April 2006.

Substantial shareholdings

As at 28 March 2006, the Company had been notified of the following interests of 3% or more of its issued share capital:

| | Number of shares | % |
|--|------------------|------|
| Harris Associates | 4,108,107 | 9.99 |
| Baring Trustees (Guernsey) Limited | 2,698,374 | 6.58 |
| Manfrotto SA | 2,478,374 | 6.05 |
| Prudential plc | 2,225,651 | 5.42 |
| Hermes UK Small Companies Focus Fund (SCFF) ^{1,2} | 2,056,234 | 5.01 |
| Deutsche Bank AG and its subsidiary companies | 2,001,162 | 4.87 |
| Legal & General Investment Management Limited | 1,549,620 | 3.77 |
| Artisan Partners Limited Partnership | 1,264,915 | 3.08 |

¹ The notification by Hermes disclosed that these shares are held through an interest in a UK Limited Partnership, in which Hermes Focus Asset Management Limited is a General Partner and Hermes SLP Limited is a Limited Partner. Hermes Investment Management Limited is a General Partner in SCFF. Britel Fund Trustees Limited is a Limited Partner in SCFF, through which some of the assets of the BT Pension scheme are invested.

² Each of the following has an interest in the Company's shares by virtue of an interest in SCFF:

Britel Fund Trustees Limited, The Trustees of BT Pension Scheme³
Royal Mail Pensions Trustees Limited and Possfund Custodian Trustee Limited⁴
Devon County Council
The Essex County Council Pension Fund
Nottinghamshire County Council
Ram Trust Services Inc.

³ Has also disclosed interests totalling a further 422,178 shares in the Company; the aggregate interest is 6.02%.

⁴ Has also disclosed an interest of 162,108 shares in the Company; the aggregate interest is 5.40%.

Post balance sheet events

The acquisition of the Petrol Bags business was completed on 16 January 2006.

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 continues to recognise 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 2005 those companies spent £7.8 million (2004: £7.9 million) on research, development and engineering.

Financial instruments

For further information on financial instruments see Note 19 to the Consolidated Accounts on page 59.

Share capital

Details of shares issued during the year are set out in Note 25 to the Consolidated Accounts on page 66. An analysis of shareholdings is shown on page 105. The middle market price of a share of the Company on 31 December 2005, the last day of dealing in 2005, together with the range during the year, is also shown on page 105. For details of own shares held see Note 13 to the Company Accounts on page 100.

Directors' Report continued

Directors

The directors during the whole of the year were Gareth Rhys Williams, Alastair Hewgill, Michael Harper, Sir David Bell, Nigel Moore, John Potter and Will Wyatt.

A new non-executive director, Simon Beresford-Wylie, was appointed to the Board on 1 March 2006. He was also appointed to the Audit, Nominations and Remuneration Committees on the same date.

As announced in the Interim Report 2005, John Potter, who has completed just over seven years as a non-executive director, will be standing down immediately after the Annual General Meeting for 2006.

The remuneration of the directors is set out in the Remuneration Report on pages 18 to 24.

Photographs and biographies of the current directors are set out on page 14.

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 2005 and 1 January 2005 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 18 to 24.

| Directors' shareholdings | 31 December 2005 | 1 January 2005 or subsequent date of appointment |
|--------------------------------|---------------------|--|
| Chairman | | |
| Michael Harper | 30,000 | 15,000 |
| Executive Directors | | |
| Gareth Rhys Williams | 43,202 ² | 27,705 ¹ |
| Alastair Hewgill | 24,607 ² | 15,651 ¹ |
| Non-executive Directors | | |
| David Bell | - | - |
| Nigel Moore | 5,695 | 5,695 |
| John Potter | 3,000 | 3,000 |
| Will Wyatt | 675 | 675 |
| | 107,179 | 67,726 |

¹ Includes interests of 7,705 shares by Gareth Rhys Williams and 1,651 shares by Alastair Hewgill purchased in the market using funds supplied by the two directors and held by Mourant & Co Trustees Limited, the trustee used to hold shares in respect of awards made under the Deferred Bonus Plan.

² Includes interests of 18,202 shares by Gareth Rhys Williams and 8,707 shares by Alastair Hewgill purchased in the market, in respect of awards made under the Deferred Bonus Plan, using funds supplied by the two directors and held by Mourant & Co Trustees Limited.

Corporate Social Responsibility Report

The Group's report on social, environmental and ethical matters is set out on pages 25 to 28. 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. It regularly reviews those policies and revises them when necessary.

Donations

During 2005 donations totalling £52,896 were made to charities by the Group (2004: £3,700). Like all companies, the Group has limited resources and the amount of money available for charitable purposes varies from time to time. 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 25 to 28.

Annual General Meeting

The Annual General Meeting for 2006 will be held on 24 May 2006 at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB.

The Chairmen of the Board and of each of its Committees will be in attendance at the Annual General Meeting to answer questions from shareholders.

The Company will again be making use of the electronic voting facility provided by its registrars, Capita Registrars. The facility has now been extended to include CREST voting for members holding their shares in uncertificated form. For further information please refer to the section on Online Services and Electronic Voting set out on page 105.

The business of the Annual General Meeting will include the consideration by shareholders of the report and accounts for the year ended 31 December 2005, the Remuneration Report, the proposed dividend, election of a director, re-election of three directors, the re-election of the auditors and the following further items of business.

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. 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 6 March 2006. The authority will expire at the end of the Company's next Annual General Meeting or, if earlier, on 24 August 2007.

The 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 1998 Annual General Meeting and has been renewed by shareholders at each subsequent annual general meeting. 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.

Auditors

The auditors, KPMG Audit Plc, are willing to continue in office. A resolution will be put to the Annual General Meeting to reappoint the auditors and to authorise the Board to agree their remuneration.

By order of the Board

Roland Peate
Secretary
6 March 2006



Remuneration Report

This Report contains the information required under the Combined Code on Corporate Governance and under the Directors' Remuneration Report Regulations 2002. A resolution to approve the Report will be proposed at the 2006 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 2005, the Remuneration Committee comprised Sir David Bell (Chairman of the Committee), Michael Harper, Nigel Moore, John Potter and Will Wyatt. On 18 May 2005 Sir David stood down as Chairman of the Committee and was replaced by Will Wyatt. Sir David remained a member of the Committee throughout 2005. Michael Harper also stood down as a member of the Remuneration Committee on 18 May 2005.

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 Chairman, Michael Harper, and the Chief Executive, Gareth Rhys Williams, attend meetings by invitation of the Committee. The executive directors are not present when their 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, under the Executive Bonus Scheme, 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 would, in total, account for 50% of their total cash 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 one or more 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 of similar roles. 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. 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 it is beneficial for an executive director to take up one external non-executive appointment. Remuneration received by a director in respect of such an external appointment would be retained by the director.

The Committee currently has no intention of amending the above stated policy for 2006 and future years, although it will be reviewed from time to time.

When reviewing and determining executive and non-executive directors' and senior management's remuneration, advice is sought and received from one or more external remuneration and benefit consultants and their various surveys of remuneration and fees and also internally from the Chief Executive, Gareth Rhys Williams, and the Company Secretary, Roland Peate. During the year, the Committee received external advice from Towers Perrin and Deloitte & Touche. In the last quarter of 2005, Watson Wyatt was formally appointed as remuneration adviser to the Remuneration Committee and it has given advice to that Committee on the remuneration of the executive directors and of the other members of the Executive Board. Watson Wyatt also provide pensions advice and services to the Company.

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 three years but their appointments 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.

A new non-executive director, Simon Beresford-Wylie, was appointed to the Board on 1 March 2006. He was also appointed to the Audit, Nominations and Remuneration Committees on the same date.

As announced in the Interim Report 2005 and referred to in the Chairman's and Chief Executive's Statement, John Potter, who has completed just over seven years as a non-executive director, will be standing down immediately after the Annual General Meeting for 2006.

Sir David Bell, who completes nine years as a non-executive director on 13 March 2006, will, after that date, no longer be considered independent. Consequently he stood down, on 1 March 2006, from membership of the Remuneration Committee and the Audit Committee. Sir David also stood down as Senior Independent Director on 1 March 2006 and Will Wyatt assumed that role.

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 Pension Scheme, life assurance and additionally, for Gareth Rhys Williams, contributions towards a permanent health arrangement. Contributions are also paid by the Company to a funded unapproved retirement benefits scheme for Gareth Rhys Williams calculated as a proportion of

the difference between the pensions earnings cap and his basic salary. In respect of Alastair Hewgill, effective 6 April 2005, his pension arrangements changed and are now on a similar basis, but not the same as, those of Gareth Rhys Williams. For further information, please refer to page 22.

It is the Company's policy to make provision for pensions for executive directors through funded retirement benefit schemes. Up to the pensions earnings cap, retirement benefits are provided through an approved retirement benefit scheme. For further information, see page 22 and the table entitled Pensions Related Remuneration on page 24.

Gareth Rhys Williams, Chief Executive, aged 44, 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 six months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to 12 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 2006 will be calculated on the basis that up to 75% of his base salary relates to the achievement of operating profit targets and up to 25% of his base salary relates to specific personal objectives. The unexpired term of Gareth Rhys Williams' service contract, to his normal retirement date, is 16 years.

Alastair Hewgill, Finance Director, aged 51, 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 six months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to 12 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 2006 will also be calculated on the basis that up to 75% of his base salary relates to the achievement of operating profit targets and up to 25% of his base salary relates to specific personal objectives. The unexpired term of Alastair Hewgill's contract, to his normal retirement date, is nine years.

Incentive arrangements

The policy of the Remuneration Committee over the last few years was to make annual awards under the Long Term Incentive Plan to the executive directors and the other members of the Executive Board. Such awards were based on a proportion of base salary. Grants of conventional share options were also made annually to the Group's senior management immediately below the level of the Executive Board. Participation in the Deferred Bonus Plan was open to those employees who were members of the Group's Executive Bonus Scheme and who received a bonus.

An in-depth review of the Group's incentive arrangements for executive directors, other members of the Executive Board and all other participants in the Group's incentive arrangements was carried out by Deloitte and Touche in early 2004. That review resulted in the overall package of incentives, including salary, bonus scheme and share incentive arrangements being restructured. The new arrangements, agreed by the Remuneration Committee at the time, resulted in a new Long Term Incentive

Plan and a new Deferred Bonus Plan which were approved by shareholders at the Annual General Meeting in 2005.

The new Long Term Incentive Plan was implemented and first used in June 2005 to make awards to the executive directors and the other members of the Executive Board, and also to the Group's key senior management below the level of the Executive Board. As envisaged when shareholder approval was received, the new Deferred Bonus Plan will replace the previous Deferred Bonus Plan and will be used in connection with bonuses arising from the Executive Bonus Scheme for 2005 and future years.

In line with the advice from Deloitte and Touche, a grant of share options was made in June 2005 to the executive directors and the other members of the Executive Board. Further grants are planned to be made to that group of executives every three years.

Executive directors and the other members of the Executive Board are now required to build up, over a period, a meaningful holding of shares in the Company. The value of holdings by the executive directors at the end of 2005 represented 57% and 49% of the base salaries of Gareth Rhys Williams and Alastair Hewgill respectively (calculated by reference to the middle market price of a share of The Vitec Group plc on 30 December 2005, the last dealing day of 2005, which was 375p - see Director's shareholdings table on page 16).

There are no plans to make any further grants under the Premium Option Plan. There are no options outstanding under that plan.

This policy is reviewed at least annually and may be revised from time to time. Invitations under the Group's Sharesave arrangements are usually made annually and these are planned to continue. Such awards and grants take into account the overall and flow limits advised by the Association of British Insurers.

The performance conditions applicable to the Group's new Long Term Incentive Plan and to the matching element of the new Deferred Bonus Plan relate to total shareholder return against a comparator group of companies of a similar size and with similar geographical spread. Awards under the previous Deferred Bonus Plan were not subject to any performance targets. The performance conditions under the Group's share option schemes will continue to relate to increases in earnings per share.

The combination of share incentives with performance conditions using total shareholder return and increases in earnings per share is considered the most appropriate way of aligning the interests of senior management with those of shareholders.

Monitoring and measuring of the performance conditions take place following the end of each year when the Company's results have been audited and again at the time of exercise of options and awards.

Remuneration Report continued

The Group currently has the following incentive schemes and plans under which awards are outstanding.

No further awards are proposed under the following three plans

1996 Unapproved Executive Share Option Scheme

Executive directors and other senior employees are selected to receive options over shares. Under the Rules of the 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 condition is that the percentage increase in earnings per share, calculated by reference to any three consecutive published balance sheets of the Company commencing with the last published balance sheet prior to the date of grant, exceeds the percentage growth in the retail prices index over the same period by 3% or more.

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 relates 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 three years must be not less than the increase in the retail prices index plus 36%. 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 this level. Where growth is between 9% and 36% above RPI awards are realisable on a straight-line basis. This plan has now been replaced by the 2005 Long Term Incentive Plan.

Deferred Bonus Plan

Under the plan, an eligible executive may defer between 10% and 50% of his or her cash bonus in exchange for receiving a basic award over shares in the Company with a value equivalent, at the date of award, to the amount of the deferred bonus. A basic award may, in normal circumstances, be exercised by a participant after two years. However, if exercise is deferred until after three years and the executive remains employed by the Group, the participant is entitled to receive a matching award of additional shares equal in number to those comprised in the basic award. Shares comprising basic awards are purchased in the market and held in trust by Mourant & Co Trustees Limited until exercise. Dividends are not paid on shares held in trust.

Performance condition: 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. This plan has now been replaced by the 2005 Deferred Bonus Plan.

Further awards are proposed under the following plans

2002 Approved Share Option Plan

This plan is approved by HM Revenue and Customs. 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 earnings per share of the Company, after adjustments for exceptional or extraordinary items, exceeds the percentage growth in the retail prices index over the three year performance period by 2% per annum (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 4% per annum 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 Share Option Plan

This plan is the same as the 2002 Approved Share Option Plan and has the same performance condition, except that it is not approved by HM Revenue and Customs.

2002 Sharesave Scheme and International Sharesave Plan

The Group 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, including the executive directors, 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.

2005 Long Term Incentive Plan (approved by shareholders at the Annual General Meeting in 2005)

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 Vitec's total shareholder return (TSR) over a period of three years, relative to a comparator group of other companies.

Performance condition: If Vitec's TSR performance is at the median of the comparator group, 35% of an award may vest. The full award may vest if Vitec's TSR performance is in the top 20% of the comparator group. There is pro-rata straight line vesting between these two points. The Remuneration Committee will also consider the underlying financial performance of the Company before it confirms vesting.

2005 Deferred Bonus Plan (approved by shareholders at the Annual General Meeting in 2005)

Executive directors are required to defer a proportion (currently 20%) of any cash bonuses in exchange for receiving a basic award over shares in the Company with a value equivalent, at the date of award, to the amount of the deferred bonus. However, subject to the discretion of the Remuneration Committee, the executive may voluntarily decide to defer a higher proportion up to a maximum of 100% of any bonus paid under the annual bonus scheme. A basic award may, in normal circumstances, be exercised by a participant after two years. However, if exercise is deferred until after three years and the executive remains employed by the Group, and subject to the performance condition, the participant is entitled to receive a matching award of additional shares equal in number to those comprised in the basic award. Shares comprising basic awards are purchased in the market and held in trust by Mourant & Co Trustees Limited until exercise. Dividends that would have accrued to the deferred shares and the matching shares over the three years will be taken into account when calculating the final number of shares to vest.

Performance conditions: If the executive remains in employment for three years and if in that period the Company's TSR relative to a comparator group of other companies is at median, or above, of the comparator group, the deferred shares will be matched at the rate of:

- one share for every three shares at median performance
- one share for every one share within the top 20% performance

There will be pro-rata straight line vesting between these points.

Five-year share price performance 2001-2005

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 Industrial Engineering Index for the five year period 2001-2005, assuming an initial investment of £100. The Industrial Engineering Index is the broad market index that includes the Company and comprises comparable companies. With effect from the beginning of January 2006, the Engineering and Machinery Index was re-classified as Industrial Engineering.

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

FTSE Industrial Engineering Index comparison based on 30 trading day average values

Remuneration Report continued

The following information has been audited.

Directors' emoluments and compensation

Michael Harper, who became Chairman on 1 November 2004, when Alison Carnwath stepped down, is paid a fee at the rate of £85,000 per annum. On 1 July 2004, the fee payable to the other non-executive directors was increased from £25,000 per annum to £27,500 per annum. The previous increase, from £20,000 per annum to £25,000 per annum, was on 1 April 2002. The next fee review for non-executive directors will be as at June 2006. The chairmen of the Remuneration Committee and of the Audit Committee, Will Wyatt and Nigel Moore respectively, each receive an additional fee for their services as chairmen of those Committees. Will Wyatt receives an additional £2,500 per annum and Nigel Moore receives £5,000 per annum. No additional fee is currently paid to the Senior Independent Director. The non-executive directors do not receive any other benefits from the Company.

Gareth Rhys Williams, Chief Executive, currently receives an annual salary of £300,000, increased from £285,000 with effect from 1 January 2006. Mr Rhys Williams is a member of the Vitec Group Pension Scheme, Executive section, and contributes 9% of his salary on the amount of the pensions earnings cap. The accrual rate is one fortieth of the pensions earnings cap 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 pensions 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 pensions earnings cap is paid to him. This arrangement is being reviewed in the light of the new pension provisions coming into force on 6 April 2006.

Gareth Rhys Williams is eligible for a performance-related bonus, based on Company performance and, if or when determined by the Remuneration Committee, individual performance, of up to 100% of base salary each year. In respect of 2005, his bonus

was calculated upon the Group's financial performance and the achievement of personal objectives. Mr Rhys Williams was paid a bonus of £158,496 in respect of 2005 and of £120,510 for 2004.

Alastair Hewgill, Finance Director, currently receives an annual salary of £200,000, increased from £190,000 with effect from 1 January 2006. Mr Hewgill is a member of the Vitec Group Pension Scheme, Executive section, and until April 2005 contributed 9% of his pensionable salary. That pension scheme is a defined benefit scheme, the accrual rate of which is one fortieth of his pensionable salary for each year of pensionable service. During the year, Mr Hewgill's pension arrangements were reviewed by the Remuneration Committee, taking advice from Watson Wyatt in respect of comparable pension arrangements for finance directors of companies of similar size and international spread. Mr Hewgill's pension arrangements were revised and backdated to 6 April 2005. Under the new arrangements he continues to contribute to the Vitec Group Pension Scheme, Executive section, but at 9% of the pensions earnings cap to match the accrual rate of one fortieth of the pensions earnings cap for each year of pensionable service. From 6 April 2005, Mr Hewgill was paid 25% of the difference between the amount of his base salary and the pensions earnings cap. Mr Hewgill is eligible for a performance-related bonus, based on Company performance and, if or when determined by the Remuneration Committee, individual performance, of up to 100% of base salary each year.

Mr Hewgill was paid a bonus of £108,039 in respect of 2005 and £81,000 for his 2004 bonus.

During the year the highest paid director was Gareth Rhys Williams who received £494,846 (2004: £435,648).

Details of the directors' emoluments and compensation for 2005 with comparatives for 2004, are set out in the table below:

| Director's name | Salaries and fees | | 2005 £ | Benefits ¹ 2004 £ | Performance related annual bonus | | Pension ² related remuneration | | 2005 £ | 2004 £ | Total 2004 £ |
|--------------------------------|-------------------|----------------|---------------|------------------------------------|----------------------------------|----------------|---|---------------|------------------|----------------|--------------------|
| | 2005 £ | 2004 £ | | | 2005 £ | 2004 £ | 2005 £ | 2004 £ | | | |
| Chairman | | | | | | | | | | | |
| Michael Harper | 85,000 | 25,644 | - | - | - | - | - | - | 85,000 | 25,644 | |
| Executive Directors | | | | | | | | | | | |
| Gareth Rhys Williams | 285,000 | 267,800 | 22,496 | 20,685 | 158,496 | 120,510 | 28,854 | 26,653 | 494,846 | 435,648 | |
| Alastair Hewgill | 190,000 | 180,000 | 12,434 | 11,412 | 108,039 | 81,000 | 15,825 | - | 326,298 | 272,412 | |
| Non-executive Directors | | | | | | | | | | | |
| Sir David Bell | 28,542 | 28,750 | - | - | - | - | - | - | 28,542 | 28,750 | |
| Nigel Moore | 32,500 | 23,750 | - | - | - | - | - | - | 32,500 | 23,750 | |
| John Potter | 27,500 | 27,500 | - | - | - | - | - | - | 27,500 | 27,500 | |
| Will Wyatt | 29,063 | 28,250 | - | - | - | - | - | - | 29,063 | 28,250 | |
| | 677,605 | 581,694 | 34,930 | 32,097 | 266,535 | 201,510 | 44,679 | 26,653 | 1,023,749 | 841,954 | |

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 £16,053 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 2005 benefits.

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

| Directors' share options | | At 1 January 2005 (shares) | Options exercised or lapsed during year (shares) | Options granted during year (shares) | At 31 December 2005 (shares) | 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 |
| 2002 Unapproved | Jun 2005 | - | - | 95,000 | 95,000 | 300 | - | Jun 2008 | Jun 2015 |
| SAYE options | Nov 2002 | 2,451 | - | - | 2,451 | 268 | - | Jan 2008 | Jun 2008 |
| | May 2003 | 4,266 | - | - | 4,266 | 231 | - | Jul 2008 | Dec 2008 |
| Alastair Hewgill | | | | | | | | | |
| Executive share options | | | | | | | | | |
| 2002 Unapproved | Jun 2005 | - | - | 63,333 | 63,333 | 300 | - | Jun 2008 | Jun 2015 |
| SAYE options | May 2003 | 7,110 | - | - | 7,110 | 231 | - | Jul 2008 | Dec 2008 |
| | | 156,684 | | 158,333 | 315,017 | | | | |

Notes

- In November 2001, a share price related cash bonus scheme was adopted under which an award equivalent to an option over 142,857 shares, representing 0.3% (2004: 0.3%) of the called up share capital of the Company, 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. The total number of shares comprising the award were purchased in the market in September 2002. These shares are being held in trust by Mourant & Co Trustees Limited. Under the transitional arrangement, the cash bonus scheme ran in tandem with the share option and to the extent that the cash bonus was not triggered by Mr Rhys Williams prior to the first occasion upon which he became entitled to exercise the share option granted on 19 September 2002, the cash bonus scheme would lapse and would be replaced by the share option. The cash bonus was not triggered and therefore the share option granted on 19 September 2002 has now replaced the share price related cash bonus award.
- 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.
- The total gain on the exercise of options by the directors during 2005 was nil (2004: Nil) as no options were exercised.
- The share price at the end of the year and the highest and lowest prices during the year are shown on the Shareholder Information and Financial Calendar page 105.

| Directors' long term incentives | | Market price of a share at the date of award (pence) | Awards at 1 January 2005 (shares) | Awards exercised or lapsed during the year (shares) | Awards made during the year (shares) | At 31 December 2005 (shares) |
|--|----------|--|--|--|--|---------------------------------------|
| Awards under the Long Term Incentive Plan | | | | | | |
| Gareth Rhys Williams | Mar 2002 | 442.5 | 28,248 | 28,248 | - | - |
| | Mar 2003 | 257.5 | 50,485 | - | - | 50,485 |
| | Mar 2004 | 357.5 | 37,455 | - | - | 37,455 |
| | Jun 2005 | 300.0 | - | - | 95,000 | 95,000 |
| Alastair Hewgill | Sep 2002 | 342.5 | 21,898 | 21,898 | - | - |
| | Mar 2003 | 257.5 | 30,097 | - | - | 30,097 |
| | Mar 2004 | 357.5 | 25,175 | - | - | 25,175 |
| | Jun 2005 | 300.0 | - | - | 63,333 | 63,333 |
| | | | 193,358 | 50,146 | 158,333 | 301,545 |

Remuneration Report continued

| Awards under the Deferred Bonus Plan | Date of award | Market price of a share at the date of award (pence) | Awards at 1 January 2005 (shares) | Awards exercised or lapsed during the year (shares) | Awards made during the year (shares) | At 31 December 2005 (shares) |
|--------------------------------------|---------------|--|-----------------------------------|---|--------------------------------------|------------------------------|
| Gareth Rhys Williams | Jun 2003 | 345 | 7,705 | - | - | 7,705 Basic |
| | Jun 2003 | 345 | 13,755 | - | - | 13,755 Matching |
| | Jun 2005 | 336 | - | - | 10,497 | 10,497 Basic |
| | Jun 2005 | 336 | - | - | 17,886 | 17,886 Matching |
| Alastair Hewgill | Jun 2003 | 345 | 1,651 | - | - | 1,651 Basic |
| | Jun 2003 | 345 | 2,947 | - | - | 2,947 Matching |
| | Jun 2005 | 336 | - | - | 7,056 | 7,056 Basic |
| | Jun 2005 | 336 | - | - | 12,022 | 12,022 Matching |
| | | | 26,058 | - | 47,461 | 73,519 |

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 |
|----------------------|--------------------------------|-------|---|-------|--------------------------------------|--------|---|--------|--|---------|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| Gareth Rhys Williams | 10,780 | 7,863 | 2,673 | 2,563 | 9,423 | 7,088 | 14,690 | 13,655 | 90,904 | 61,248 | 20,053 |
| Alastair Hewgill | 11,953 | 8,783 | 2,898 | 3,412 | 10,953 | 12,163 | 29,124 | 28,508 | 153,681 | 102,215 | 40,513 |

Beyond the earnings cap, the cost of pensions comprised defined contribution payments to a funded unapproved retirement benefit scheme (FURBS) in respect of Gareth Rhys Williams of £43,272 (2004: £39,972).

Approved by the Board of Directors on 6 March 2006 and signed on its behalf by:

Roland Peate
Secretary

Corporate Social Responsibility Report

The Group published its first detailed Corporate Social Responsibility Report in 2002. During 2005 the Group continued to develop 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 has continued, and will continue, into the future. The Group regards compliance with all relevant laws and guidelines as important and socially responsible. The Group's website is compliant with Part III of the Disability Discrimination Act 1995, which covers access to *goods and services*. For full details, please see the Accessibility Statement on the website (<http://www.vitecgroup.com/accessibility.aspx>).

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 continue to have a responsibility to understand the impact that our activities 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. Over the last few years we have developed and implemented a more consistent approach to adopt sound policies throughout all our operations. As part of this 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 in 2002 and they are being used for reporting purposes and to monitor improvements.

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 and 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. The Group's website continues to include microsites containing annual reports and accounts. It also provides a gallery containing photographs of Group products and a Factsheet giving key information about the Group. An Innovation section was added during 2005 to encourage contact by potential new business partners - Vitec is continually looking to offer new products that will form the core of the media creation process. Part of that initiative involves exploring new ideas and products with the global community of inventors, engineers and developers.

The aim of the website as a whole is to help investors, potential investors and employees alike to better understand the Group 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. A Group intranet is also currently being built. *These enable 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.

Pensions briefings and consultations are given to employees in the UK by the Group Company Secretary and by the pensions administrators, Watson Wyatt, usually in conjunction with an external financial adviser.

The Executive Board, the other senior executives of the Group, 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 practice 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 over the Company's shares are granted to employees who enter into contracts to save agreed amounts each month. Presentations are made by the Group Company Secretary to employees both in the UK and overseas on the Group's Sharesave Scheme and International Sharesave Plan. Invitations under the UK and the International schemes have been made each year since the schemes were first introduced in 1984.

Corporate Social Responsibility Report continued

Ability and aptitude continue to be the determining factors in the selection, training, career development and promotion of all employees. We understand our responsibility as employers under the Disability Discrimination Act 1995 and we do not discriminate against disabled people. If an employee is, or 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. Additional training is given where an employee has a specific role such as responsibility for administering first aid.

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

Anton/Bauer and Sachtler have Safety Committees with the aim of identifying potential risks facing employees and developing solutions to mitigate risks, including training employees to deal with and avoid risks. They have strong safety records evidenced by no accidents in recent years. Sachtler also provides staff with the opportunity to have their eyesight checked by a visiting doctor.

Following the formalisation of the recording and reporting of accidents and related lost time statistics in 2003, these procedures form the basis of regular reporting to the Executive Board. In 2005 the gathering and reporting of accident statistics was further refined and continues to be reported to, and monitored by, the Executive Board.

| <i>Workplace injuries and fatalities</i> | <i>2005</i> | <i>2004</i> |
|---|-------------|-------------|
| Rate of non-fatal over 3-day workplace injuries (Notes 1 and 2) | 1,040 | 1,290 |
| Rate of fatal workplace injuries (Note 2) | nil | nil |

(The figure for 2004 has been restated as a result of the receipt of additional information).

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 per year, 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.

In previous years' annual reports the Group has reported on developments during those years.

Developments during 2004 included:

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. Vinten also uses a recycling system that covers paper, cans and plastic cups and has an ongoing water-efficiency programme.

Also in 2004, Vinten changed the protective finish on fasteners and screws from zinc plate to an organic protective finish. Soldering fume extraction was improved in robotics assembly areas and trials in the use of lead free solder were successfully completed. Waste paper recycling was extended to the whole of the Bury St Edmunds, Suffolk site and printer cartridges were also recycled. The viewing windows on machine tools were replaced to comply with safety regulations. Vinten also implemented a system of controlled disposal of used electrical equipment.

During 2005, Vinten increased the recycling of waste paper, printer cartridges and obsolete mobile phones from the office areas. Office equipment that became obsolete was donated to schools and colleges.

During 2005, Drake and Vinten in the UK continued implementation of EU Directive on Waste Electrical and Electronic Equipment (WEEE) started during 2004. The UK manufacturing facilities are compliant in the control and management of waste arising from the production process and facilities waste. Management of disposal of returned used end of life, electronic and electrical products from customers will be in place in accordance with the effective date of the directive.

Restriction of Use of Certain Hazardous Substances (RoHS) comes into effect on 1 July 2006. This has involved analysing

in-house and third party supplied components to ensure they do not contain restricted levels of specified materials harmful to the environment. The aim is to phase out, as quickly as possible, the use of lead free solder and other components. Close monitoring is taking place to ensure compliance with the directive by the appropriate implementation dates, depending on the categorisation of the products.

Clear-Com in the USA, although not covered by EU legislation, is taking the same responsible approach to waste electrical and electronic equipment and to restricting its use of certain hazardous substances such as solder containing lead. Cardboard and toner cartridges are also recycled by Clear-Com. Cardboard and paper recycling has already been implemented. Toner cartridges are recycled either by The Roy Castle Lung Cancer Foundation, a charity wholly dedicated to defeating lung cancer, or through local vendors.

There is a continued reduction by Vitec Group Communications in the use of bubble wrap and polystyrene chippings facilitated by the increased use of bespoke packaging.

At our Bury and Cambridge manufacturing sites in the UK (this information is relevant also for Sachtler which is supplied by these sites), a waste management initiative commenced during 2005. Working with WAS Waste Management specific types of waste are segregated and disposed of through traceable routes to enable optimum environmental handling and compliance with relevant legislation, including WEEE.

In conjunction with the Carbon Trust, a government funded consultancy; the following recommendations have been implemented at Bury and Cambridge:

- Reduction of overnight heating temperature through improved thermostatic controls.
- Improved temperature controls for air conditioning units.
- Improved insulation of the offices.
- Heat recovery from the flue gas from the paint-curing oven and exhausts from the compressor.
- Installation of motion sensors to automatically switch lighting off when areas are not being used.
- Installation of passive infrared switching of security lighting in outside areas.

At our Costa Rica facility all recyclable waste; aluminium, plastics, cardboard are collected and disposed of by a registered recycling company. That facility now uses a high proportion of bio-degradable packaging and has reduced the use of cardboard. In 2005 we achieved a significant reduction in our facilities costs, the above actions have contributed to this.

A number of the machining processes in our Italian subsidiary, Manfrotto, have introduced de-greasing of components by using automatic washing with hot water in place of using compressed air to clean components prior to assembly. This reduces repetitive operator actions and noise levels. The water used in the process has no detergent added. The metal filings cleaned from the components fall away by means of gravity and are collected and recycled. The oil cleaned from the components is also collected and recycled. The water is used for a number of

cleaning cycles until it becomes dirty and it is then disposed of by an approved disposal organisation.

Anton/Bauer continues to be an active member of the battery recycling scheme in conjunction with the Rechargeable Battery Recycling Corporation (RBRC). Anton/Bauer pays licensing fees to the RBRC, a non-profit public service organisation created to promote the recycling of portable batteries, and places the RBRC seal on its products. In 2005 Anton/Bauer forwarded more than 31,000 pounds of nickel cadmium, lithium ion and nickel metal hydride batteries returned to the company for recycling. Anton/Bauer also is a member of the PRBA (Portable Recharging Battery Association) whose mission is to provide leadership in obtaining consistent domestic and international solutions to environmental and other selected issues affecting the use, recycling and disposal of small sealed rechargeable batteries. Anton/Bauer now uses energy saving lightbulbs in all areas and lead free bulbs with low mercury content. They also continue to recycle cardboard and toner cartridges and all heating systems use timers for energy saving during non-working hours.

In 2003 Drake 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 also reduced the use of bubble wrap and polystyrene chippings. Drake continues to reduce the use of bubble wrap and polystyrene chippings by increasing its use of bespoke packaging. Cardboard, paper and toner cartridges are each separately recycled.

OConnor continues to recycle the remnant ink from its printers and photocopier, use energy saving light bulbs, use electronic timers for heating and air conditioning units, and to recycle all of its machine cutting chips and scrap metal. OConnor's 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 of OConnor's product packaging is made of recycled materials.

OConnor uses recycling schemes for its potentially flammable metals and hazardous oils utilising outside agencies such as the State of California Environmental Protection Agency.

| Energy usage | 2005 | 2004 |
|--|-----------|-----------|
| Electricity usage (in kilowatt hours) | 8,904,922 | 8,344,586 |
| Gas usage (in kilowatt hours) | 7,091,551 | 7,133,146 |
| Water usage (in cubic metres) | 28,639 | 39,982 |

Compared with 2004, the Group's electricity usage has increased. This is primarily due to increased activity at our Photographic manufacturing units in Italy and at Broadcast Systems manufacturing in Bury St Edmunds, Suffolk. Gas usage has marginally decreased when compared with 2004. Water consumption has also reduced. Note that the usage figures for 2004 have been restated to reflect more accurate information gathering. The figures do not include the acquisition during the year.

Corporate Social Responsibility Report continued

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, made primarily to children's, cancer, police, fire brigade, drug rehabilitation and other similar charities. The charity committees review all written requests for donations and decide on the level of donation and the charities to which donations are made whilst taking into account its limited resources.

During 2005 donations totalling £52,896 were made to charities by the Group (2004: £3,700). 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 foreseeable future. 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 main and supporting principles set out in the Combined Code (the 'Code'). 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. 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.

Statement of compliance

The Board considers that it has complied with the Code throughout the year ended 31 December 2005. The Company regularly reviews and revises its procedures, as necessary, to take account of the requirements of the Code.

The Board

The Board met six times during the 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 or to its Committees.

Throughout the year the Board comprised two executive directors and five non-executive directors. Gareth Rhys Williams was a director and the Chief Executive throughout the year. Alastair Hewgill was the Finance Director throughout the year. During 2005 all the directors attended all the Board meetings except for Sir David Bell who was unable to attend the August and December Board meetings due to unavoidable absences abroad on business. On the day of the June Board meeting, immediately prior to its commencement, the Directors received presentations relating to strategy from various parts of the Group. Sir David was in attendance for those presentations, but had to leave prior to commencement of the Board meeting itself to attend a funeral and, consequently, was not present at that meeting.

The directors bring independent character and 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. Sir David Bell, who completes nine years as a non-executive director on 13 March 2006, will, after that date, no longer be considered independent. Consequently, he stood down, on 1 March 2006, as Senior Independent Director and Will Wyatt assumed that role.

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 the basis that it gives all Board members adequate time to read and, where appropriate, ask questions prior to the meeting about the information supplied. The information includes 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 which are available by request from the Company Secretary or can be viewed on the Company's website. The terms of reference and the effectiveness of the Board and of each Committee are regularly reviewed and changes made where necessary. Points arising from the reviews of effectiveness are summarised and tabled at subsequent Board meetings at which they are discussed and action plans agreed.

Individual director performance evaluation has also taken place. In the case of the executive directors this evaluation takes place by the non-executive directors regularly throughout the year against achievement of specific objectives. Evaluation of the Chairman was carried out by the Senior Independent Director. Evaluation of each of the other non-executive directors was carried out by the Chairman. Each evaluation was carried out by using written questionnaires and the results were discussed individually with each of the relevant non-executive directors. Evaluations are planned to take place each year in the future.

Audit Committee

The Committee is chaired by Nigel Moore. The other members of the Committee are Simon Beresford-Wylie, John Potter and Will Wyatt. Sir David Bell stepped down as a member of the Committee on 1 March 2006. Each member of the Committee is independent. The Company's external auditors are invited to attend meetings of the Committee on a regular basis. During 2005 the Committee met three times and all the members attended all the Committee meetings except for Sir David Bell who was unable to attend the August Committee meeting due to unavoidable absence abroad on business. At two of the meetings the executive directors were not present for part of the meeting so that members of the Committee could meet with the external auditors in private. The practice of the Committee meeting in private with the external auditors will continue in the future.

Duties of the Committee:

Financial Reporting

Monitoring 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. The annual financial statements of the pension funds were not reviewed by the Board as a whole.

Corporate Governance continued

Internal Controls and Risk Management Systems

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

Whistleblowing

Reviewing 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 its own internal audit function. However, the need for such a function is regularly reviewed and considered by the Committee. (The use of third party audit consultants is explained more fully in the final paragraph of Internal Control and Risk Management).

External Audit

Considering and making 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 auditors. The Committee oversees the selection process for new auditors and, if the auditors resign, the Committee is required to investigate the issues leading to this and decide whether any action is required.

Overseeing the relationship with the external auditors including, but not limited to:

- approving 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;
- approving 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 auditors 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 auditors 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 auditors, then monitoring the implementation of this policy;
- monitoring the auditors' 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 the external auditors' qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures;

- meeting regularly with the external auditors, including at the planning stage before the audit and after the audit at the reporting stage. The Committee meets the external auditors 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 auditors. This includes but is not limited to the following;
 - a discussion of any major issues that arose during the audit,
 - 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 auditors before it is signed by management;
- reviewing the management letter and management's response to the auditors' findings and recommendations;
- developing and implementing a policy on the supply of non audit services by the external auditors, 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, reviewing its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommending 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 Committee is chaired by Will Wyatt. The other members of the Committee are Simon Beresford-Wylie, Nigel Moore and John Potter. Sir David Bell stepped down as a member of the Committee on 1 March 2006. Each member of the Committee is independent. During 2005, the Committee met four times and all the members attended all the Committee meetings except for Sir David Bell who was unable to attend the December Committee meeting due to unavoidable absence abroad on business.

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. No director or manager may be involved in any decisions as to their own remuneration;
- in determining such policy, taking into account all factors which it deems necessary. The objective of such policy is 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 determining targets for, any performance related pay schemes operated by the Company and approving 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, determining 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 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 and the Combined 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 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.

Nominations Committee

The Committee is chaired by Michael Harper. The other members of the Committee are Sir David Bell, Simon Beresford-Wylie, Nigel Moore, John Potter and 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 2005, the Committee met on four occasions but also met by conference telephone and with the executive directors in attendance on a number of occasions to consider and discuss progress on the appointment of a new non-executive director. All the members attended all the Committee meetings except for Sir David Bell who was unable to attend the August and December Committee meetings due to unavoidable absences abroad on business.

Duties of the Committee:

- regularly reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board in the future compared to its current position and making recommendations to the Board with regard to any changes;

Corporate Governance continued

- giving 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;
- being 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, evaluating the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation preparing 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;
- keeping under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continuing ability of the Company to compete effectively in the marketplace;
- keeping up to date and fully informed about strategic issues and commercial changes affecting the company and the market in which it operates;
- reviewing 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
- ensuring 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 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 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, the Board and the individual director concerned, 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. Sir David Bell, Alastair Hewgill and Will Wyatt will retire and will be proposed for re-election at the 2006 Annual General Meeting. A new non-executive director, Simon Beresford-Wylie, was appointed by the directors on 1 March 2006 and will be proposed for election at the 2006 Annual General Meeting.

As announced in the Interim Report 2005, John Potter, who has completed just over seven years as a non-executive director, will be standing down immediately after the Annual General Meeting for 2006.

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 and the Chairman 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 withheld, 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 Group's website contains details of the resolutions and the voting thereon.

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. However, any system can only provide reasonable assurance against material misstatement or loss. As part of its responsibility, the Board regularly, and at least annually, 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.

The Board has adopted a risk-based approach to establishing the system of internal control. The application, and the process, followed by the Board in reviewing the effectiveness of the system of internal control during the year are 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.
- this system has been in place for the year under review and up to the date of approval of the annual report and accounts.

- 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 to the Group are formally assessed during the annual long-term business planning process around mid-year. These plans and the attendant risks to the Group are reviewed and considered by the Board.
- large capital projects, product development projects and acquisitions and disposals 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 regular 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, 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.
- A centralised database of risks facing the Group, as well as each individual business, and an evaluation of the impact and likelihood of those risks is maintained and updated regularly.
- 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.
 - 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.

Corporate Governance continued

The Board considers that it has fully complied with the Code during the year and up to the date of approval of the annual report and accounts and that it accords with Turnbull guidance.

The Group does not have an internal audit function. However, the need for such a function is regularly reviewed. 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. Four such outsourced audits took place in 2005.

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 in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of The Vitec Group plc

We have audited the group and parent company financial statements (the 'financial statements') of The Vitec Group plc for the year ended 31 December 2005 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated and parent company Balance Sheets, Consolidated Cash Flow Statement and the related Notes. These financial statements have been prepared under the accounting policies set out therein. 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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 34.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; and
- the parent company 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
6 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

| | Notes | 2005 Significant items ⁽¹⁾ | | | | 2004 Significant items ⁽¹⁾ | | | | Total £m |
|--|-------|--|---|---|--------------|--|--|---|-------------|--------------|
| | | Before significant items £m | Amortisation of acquired intangibles and Other financial expense items £m | Restructuring costs and Property profits £m | Total £m | Before significant items £m | Goodwill impairment, negative goodwill and Other financial expense items £m | Restructuring costs and Property profits £m | Total £m | |
| Revenue | 3 | | | | | | | | | |
| Continuing operations | | 193.2 | | | 193.2 | 185.4 | | | | 185.4 |
| Acquisitions | | 1.7 | | | 1.7 | - | | | | - |
| | | 194.9 | | | 194.9 | 185.4 | | | | 185.4 |
| Cost of sales | 4 | (115.6) | | | (115.6) | (108.9) | | | | (108.9) |
| Gross profit | | 79.3 | | | 79.3 | 76.5 | | | | 76.5 |
| Other operating income | 5 | - | - | 0.3 | 0.3 | - | - | - | - | - |
| Operating expenses | 4 | (59.3) | (0.2) | (0.9) | (60.4) | (58.7) | (0.1) | (2.1) | (60.9) | (60.9) |
| Operating profit | 3 / 6 | | | | | | | | | |
| Continuing operations | | 19.8 | - | (0.6) | 19.2 | 17.8 | (0.1) | (2.1) | 15.6 | 15.6 |
| Acquisitions | | 0.2 | (0.2) | - | - | - | - | - | - | - |
| | | 20.0 | (0.2) | (0.6) | 19.2 | 17.8 | (0.1) | (2.1) | 15.6 | 15.6 |
| Interest payable on bank borrowings | | (1.5) | | | (1.5) | (1.7) | | | | (1.7) |
| Interest income | | 0.2 | | | 0.2 | 0.1 | | | | 0.1 |
| Pension scheme: | | | | | | | | | | |
| Interest charge | | (2.0) | | | (2.0) | (1.1) | | | | (1.1) |
| Expected return on assets | | 2.2 | | | 2.2 | 1.4 | | | | 1.4 |
| Other financial expense | | (0.5) | (0.5) | - | (1.0) | - | (0.1) | - | | (0.1) |
| Net financial expense | 9 | (1.6) | (0.5) | - | (2.1) | (1.3) | (0.1) | - | | (1.4) |
| Profit before tax | | 18.4 | (0.7) | (0.6) | 17.1 | 16.5 | (0.2) | (2.1) | | 14.2 |
| Overseas taxation | 11 | (7.7) | - | - | (7.7) | (7.4) | - | 0.9 | | (6.5) |
| Profit from continuing operations | | 10.7 | (0.7) | (0.6) | 9.4 | 9.1 | (0.2) | (1.2) | | 7.7 |
| Profit from discontinued operation | 3 | 0.4 | | | 0.4 | - | | | | - |
| Profit for the year (attributable to Equity Shareholders) | | 11.1 | (0.7) | (0.6) | 9.8 | 9.1 | (0.2) | (1.2) | | 7.7 |
| Earnings per share | | | | | | | | | | |
| Continuing operations: | | | | | | | | | | |
| Basic earnings per share | | | | | 22.9p | | | | | 18.8p |
| Diluted earnings per share | | | | | 22.7p | | | | | 18.7p |
| Discontinued operation: | | | | | | | | | | |
| Basic earnings per share | | | | | 1.0p | | | | | nil p |
| Diluted earnings per share | | | | | 1.0p | | | | | nil p |
| Total: | | | | | | | | | | |
| Basic earnings per share | 12 | | | | 23.9p | | | | | 18.8p |
| Diluted earnings per share | 12 | | | | 23.7p | | | | | 18.7p |

⁽¹⁾ See Note 5.

As more fully explained in Note 25, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IFRS 1.

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2005

| | 2005 £m | 2004 £m |
|--|-------------|--------------|
| Actuarial gain/(loss) on pension obligations | 0.5 | (0.6) |
| Currency translation differences on foreign net investments | 2.4 | (4.1) |
| Net (loss)/gain on hedge of net investment in foreign subsidiaries | (0.2) | 0.1 |
| Cash flow hedging reserve: | | |
| Amounts released to income statement | (0.8) | |
| Effective portion of changes in fair value | (0.7) | |
| Net income (expense) recognised directly in equity | 1.2 | (4.6) |
| Profit for the year | 9.8 | 7.7 |
| Total recognised income for the year | 11.0 | 3.1 |
| Effect of adoption of IAS 32 and IAS 39 at 1 January 2005 on: | | |
| Retained earnings | 0.4 | |
| Cash flow hedging reserve | 0.8 | |
| Total | 12.2 | 3.1 |

As more fully explained in Note 25, financial instrument accounting is determined on different bases in 2005 and 2004 due to management's decision not to adopt IAS 32 and IAS 39 until 1 January 2005. Management has also taken the option of IFRS 1 not to restate comparatives on adoption of IAS 32 and IAS 39.

Consolidated Balance Sheet

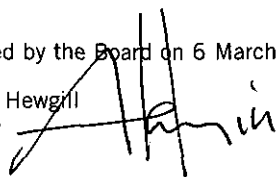
As at 31 December 2005

| | Notes | 2005 £m | 2004 £m |
|----------------------------------|-------|--------------|--------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 33.6 | 30.7 |
| Intangible assets | 14 | 19.9 | 12.8 |
| Deferred tax assets | 16 | 5.8 | 7.2 |
| | | 59.3 | 50.7 |
| Current assets | | | |
| Inventories | 17 | 31.3 | 32.6 |
| Trade and other receivables | 18 | 37.0 | 35.0 |
| Derivative financial instruments | 19 | 0.2 | |
| Current tax assets | 20 | 0.9 | 2.3 |
| Cash and cash equivalents | 21 | 12.7 | 14.4 |
| | | 82.1 | 84.3 |
| Total assets | | 141.4 | 135.0 |
| Liabilities | | | |
| Current liabilities | | | |
| Bank overdrafts | 21 | 0.9 | 1.0 |
| Bank loans | 19 | - | 24.7 |
| Trade and other payables | 23 | 31.5 | 27.4 |
| Derivative financial instruments | 19 | 0.9 | |
| Current tax liabilities | 20 | 7.6 | 2.6 |
| Provisions | 24 | 1.2 | 2.7 |
| | | 42.1 | 58.4 |
| Non-current liabilities | | | |
| Bank loans | 19 | 17.2 | - |
| Other payables | 23 | 0.2 | 0.1 |
| Post-employment obligations | 28b | 7.5 | 9.7 |
| Provisions | 24 | 2.7 | 0.2 |
| Deferred tax liabilities | 16 | 1.1 | 2.4 |
| | | 28.7 | 12.4 |
| Total liabilities | | 70.8 | 70.8 |
| Net assets | | 70.6 | 64.2 |
| Equity | | | |
| Share capital | | 8.2 | 8.2 |
| Share premium | | 2.7 | 2.7 |
| Translation reserve | | (1.8) | (4.0) |
| Other reserves | | 0.9 | 1.6 |
| Retained earnings | | 60.6 | 55.7 |
| Total equity | 25 | 70.6 | 64.2 |

As more fully explained in Note 25, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IFRS 1.

Approved by the Board on 6 March 2006 and signed on its behalf by

Alastair Hewgill
Director



Consolidated Cash Flow Statement

For the year ended 31 December 2005

| | Notes | 2005 £m | 2004 £m |
|--|-------|---------------|---------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 9.8 | 7.7 |
| Adjustments for | | | |
| Taxation | | 7.7 | 6.5 |
| Depreciation | | 8.9 | 9.4 |
| Amortisation of intangibles | | 1.2 | 0.8 |
| Goodwill impairment | | - | 0.7 |
| Negative goodwill | | - | (0.6) |
| Loss on disposal of property, plant and equipment | | (1.6) | (1.0) |
| Fair value losses on derivative financial instruments | | (0.4) | |
| Cost of equity-settled employee share schemes | | 0.3 | 0.1 |
| Financial income | | (2.4) | (1.5) |
| Financial expense | | 4.5 | 2.9 |
| Operating profit before changes in working capital and provisions | | 28.0 | 25.0 |
| Decrease/(increase) in inventories | | 3.0 | (0.1) |
| Increase in receivables | | (0.8) | (0.1) |
| Increase/(decrease) in payables | | 3.1 | (1.2) |
| Decrease in provisions | | (3.4) | (1.1) |
| Adjustments for foreign exchange losses | | (0.1) | - |
| Cash generated from operations | | 29.8 | 22.5 |
| Interest paid | | (1.8) | (1.7) |
| Tax paid | | (1.6) | (1.4) |
| Net cash flow from operating activities | | 26.4 | 19.4 |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 2.1 | 1.6 |
| Purchase of property, plant and equipment | | (11.1) | (8.7) |
| Software and development costs capitalised as intangible assets | | (0.6) | (1.3) |
| Interest received | | 0.5 | 0.1 |
| Acquisition of subsidiary, net of cash acquired | | (4.6) | (1.5) |
| Net cash outflow from investing activities | | (13.7) | (9.8) |
| Cash flows from financing activities | | | |
| Proceeds from the issue of shares | | - | 0.1 |
| Repayment of bank loans | | (8.2) | (1.6) |
| Dividends paid | | (6.1) | (9.3) |
| Net cash outflow from financing activities | | (14.3) | (10.8) |
| Decrease in cash and cash equivalents | 22 | (1.6) | (1.2) |
| Cash and cash equivalents at 1 January | | 13.4 | 15.6 |
| Exchange rate movements ⁽¹⁾ | | - | (1.0) |
| Cash and cash equivalents at 31 December | 21 | 11.8 | 13.4 |

⁽¹⁾ Exchange rate movements result from the adjustment of opening balances and cash flows in the year to closing exchange rates.

As more fully explained in Note 25, financial instrument accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IFRS 1.

Notes to the Consolidated Accounts

The Vitec Group accounting policies under IFRS

1a Basis of Preparation The financial statements are presented in sterling. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value:

- Derivative financial instruments used for currency hedging.
- Share options as part of employee share schemes.
- Financial assets used to fund the Group's defined benefit pension obligations (this fair value is stated net of the actuarial value of the associated pension obligations).

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Those judgements made by management in the application of IFRS that have significant effect on the financial statements and the estimates that are considered by the directors to have a significant risk of material adjustment in the next year are discussed in Note 30.

1b Statement of Compliance The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The company has elected to prepare its parent company financial statements in accordance with UK GAAP. These are the Group's first annual consolidated financial statements under IFRS and IFRS 1 has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 32.

1c Exemptions Taken by the Group on Adoption of IFRS IFRS 1 permitted the Group, on adopting IFRS for the first time, to take certain exemptions from the full requirements of IFRS in the transition period from 1 January 2004 to 31 December 2004. The Group took the following exemptions:

- i) All cumulative actuarial gains and losses relating to defined benefit pension schemes were recognised in equity at the transition date on 1 January 2004.
- ii) The Group did not adopt IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement until 1 January 2005.
- iii) The Group adopted the exemption allowing cumulative translation differences on disposal of an operation that arose prior to the transition date, to be reset to zero at that date.
- iv) The Group adopted the exemption to apply IFRS 2 Share-based Payments only to awards made after 7 November 2002.
- v) The Group elected not to restate any business combinations that occurred before 1 January 2004.
- vi) The Group did not adopt the option to restate items of property, plant and equipment to fair value at transition date.

2 Accounting Policies The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of transition to IFRS, except for IAS 32 and IAS 39 which are explained more fully in Note 19.

Basis of Consolidation Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

Intra-Group balances, and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

Business Combinations All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount previously recorded under UK GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

Negative goodwill arising from an acquisition is recognised directly in the income statement.

Impairment The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Once recognised, an impairment loss is not reversed.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Revenue Revenue, 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 the significant risks and rewards of ownership have been transferred to the buyer, which is normally when title passes to the customer.

Revenue arising from asset rental is recognised over the duration of the rental contract at the gross amount billed to the customer.

No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods and continuing management involvement with the goods.

Long Term Contracts Contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract, to the extent that the contract outcome can be estimated reliably. The stage of completion is assessed by reference to surveys of work performed. An expected loss on a contract is recognised immediately in the income statement.

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

Amounts recoverable on contracts are included in receivables and represent revenue recognised in excess of payments on account.

Foreign Currency Transactions in foreign currencies with overseas customers and suppliers are converted at the date at which transactions occur.

Monetary assets and liabilities are translated at the period-end rates and the gains or losses on translation are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using exchange rates ruling at the date the fair value was determined.

Notes to the Consolidated Accounts continued

Foreign currency gains and losses on inter-company loans are recorded directly in reserves if they form part of a net investment and repayment is neither planned nor likely to occur in the foreseeable future.

Foreign trading profits and cash flows are translated at a weighted average rate for the period. The assets and liabilities of overseas companies, including goodwill and fair value adjustments arising on consolidation, are translated using foreign exchange rates ruling at the balance sheet date.

Differences on translation of net investments in overseas companies, and of related hedges, are taken directly to the translation reserve. They are released to the income statement on disposal.

Pension Costs The costs of providing pensions for employees under defined contribution schemes are expensed as incurred.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate for UK schemes has been derived based on redemption yields on appropriate British Government bonds, plus a margin representing the yield premium on long-dated AA corporate bonds over British Government bonds. The calculation is performed by a qualified actuary using the projected unit credit method. The Group recognises the ongoing service cost in the income statement as part of operating profit. The Group recognises the net of the unwinding of the discount (above) and the return on plan assets in the income statement as part of net financial expense. All actuarial gains and losses, both as at 1 January 2004 and those that arose subsequent to this date, are recognised in the Statement of Recognised Income and Expense. The Group's net obligations in respect of overseas defined benefit pension plans are estimated by qualified actuaries using appropriate methodologies.

Past-service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Property, Plant and Equipment 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. Residual values and expected useful lives are reassessed annually. 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 |

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. In accordance with IFRS1, certain land and buildings that had been revalued to fair value prior to 1 January 2004 are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Research and Development The Group incurs expenditure on research projects and on projects to apply research findings to develop new or substantially improved products or processes. This expenditure is recognised in the income statement as incurred.

Once detailed criteria have been met that confirm that the product or process is both technically and commercially feasible and the Group has sufficient resources to complete the project, any further expenditure incurred on the project is capitalised. The capitalised expenditure includes the cost of materials, direct labour and an appropriate portion of overheads.

Capitalised expenditure is amortised over the life of the project and is stated at cost less accumulated amortisation and impairment losses.

Other Intangible Assets Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight line method over their estimated useful lives.

Intangible assets arising on acquisition are amortised using the straight line method over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are capitalised and recognised as intangible assets.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives not exceeding five years.

Inventories Inventories are valued at the lower of cost and net realisable value, less progress payments. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is based on the first-in first-out principle and includes the cost of materials, direct labour and production overheads (based on normal operating capacity) incurred in bringing stocks and work in progress to their present location and condition. Provisions for inventories are recognised when the book value exceeds its net realisable value.

Derivatives and Hedge Accounting The Group uses derivative financial instruments ('derivatives') to hedge its exposure to foreign exchange risks arising from operational activities. The Group does not hold or issue derivatives for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are recognised initially at cost, and subsequent to initial recognition at fair value. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The fair value of 'simple' option contracts is their quoted market price at the balance sheet date.

Derivatives are de-recognised when they mature or are sold.

The gain or loss on re-measurement to fair value is recognised immediately in the income statement unless the derivatives qualify for hedge accounting.

Cash Flow Hedges

Where a derivative is designated as a hedge of the variability in cash flows of a highly probable forecast transaction ('a hedging instrument'), the effective part of any gain or loss on the hedging instrument is recognised directly in equity. This gain or loss is removed from equity and recognised in the income statement in the same period during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

If a hedging instrument expires or is sold but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Hedge of Monetary Assets and Liabilities

Where a derivative is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of a Net Investment in a Foreign Operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement. The portion retained in reserves will be recycled into the income statement on the sale of the foreign operation.

Previous Accounting Policy

Prior to 1 January 2005, the Group accounted for derivatives in accordance with UK GAAP. Derivatives were only recognised when they were used to hedge the foreign exchange exposure of a recognised monetary asset or liability, and any gain or loss on the hedging instrument was recognised directly in the income statement.

Notes to the Consolidated Accounts continued

Interest Bearing Borrowings Interest-bearing borrowings are stated in the balance sheet at cost, being the fair value of consideration, after the deduction of issue costs, which are recognised in the income statement over the term of the related borrowings.

Income Tax The tax expense in the income statement represents the sum of tax currently payable and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, where deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit would be available to allow all or part of the deferred income tax assets to be utilised.

Deferred tax liabilities are not recognised for the following temporary differences:

- Goodwill not deductible for tax purposes or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- Differences relating to investments in subsidiaries to the extent that the timing of the reversal is controlled by the company and they will probably not reverse in the foreseeable future.

IAS 12 requires deferred tax to be provided in respect of undistributed profits of overseas subsidiaries unless the parent is able to control the timing of remittances and it is probable that such remittances will not be made in the foreseeable future. As the Group is able to control the timing of remittances from overseas subsidiaries, no provision has been made for any tax on undistributed profits of overseas subsidiaries. Similarly, no deferred tax assets or liabilities have been recognised in respect of temporary differences associated with investments in subsidiaries.

Employee Share Schemes The Group operates a number of share-based incentive schemes, some of which entitle the beneficiary to shares (equity-settled) and others that entitle the beneficiary to cash (cash-settled). The schemes in place prior to 2005 were based on share price movements. A new equity-settled scheme was set up in 2005 that is based on Total Shareholder Returns (TSR).

The fair values of options are calculated using Black-Scholes or Monte Carlo simulation models.

For equity-settled options, income statement charges are made based on the fair value of these options at the date of grant and on the estimated number options expected to vest after adjusting for lapses due to leavers during the life of the scheme and achievement of any non-market-based vesting conditions (for example, profitability and sales growth targets). Subsequently, at each balance sheet date prior to vesting of the relevant awards, the Group revises the estimates of the number of options that are expected to vest after adjusting for expected leavers and estimated achievement of non-market-based vesting conditions. The Group recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

Cash-settled options are recognised relating to the national insurance contributions payable on exercise of equity-settled options. Income statement charges are made based on the difference between the equity-settled options' exercise price and the Group share price at that date.

Leases Payments made under operating leases are charged to the income statement on a straight-line basis. The Group does not have any finance leases.

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

Trade and Other Receivables Trade and other receivables are stated at their cost less provision for doubtful debts.

Dividends Dividends are recognised as a liability in the period in which they are declared.

Provisions Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for warranties, based on historical warranty data, are recognised when the underlying products or services are sold. Provisions for restructuring are recognised when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced. Provisions for onerous contracts are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Segmental Reporting A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group reports separate information on its material operations for each of the Group's segments. The Group's primary segment is the business sector and its secondary segment is geographical area.

Net Finance Expenses Net finance expenses comprise interest payable on borrowings, interest receivable on funds invested, the amortisation of loan costs, foreign exchange gains and losses on external or inter-company loans or investments to the extent that they are recognised in the income statement, the finance element of the charge or credit relating to defined benefit pension schemes and gains and losses on derivatives to the extent that they are recognised in the income statement.

Cash and Cash Equivalents Cash and Cash equivalents represent cash on hand and demand deposits at banks. Demand deposits are short term highly liquid investments that are readily convertible to known amounts of cash without penalty and that are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Notes to the Consolidated Accounts continued

3 Segment Reporting

| Primary format - by business segments | Photographic | | Broadcast Systems | | Broadcast Services | | Corporate and unallocated | | Consolidated | |
|---------------------------------------|--------------|------------|-------------------|------------|--------------------|------------|---------------------------|------------|--------------|------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m | 2005 £m | 2004 £m | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Revenue from external customers: | | | | | | | | | | |
| Sales | 76.2 | 68.7 | 91.5 | 86.9 | 7.8 | 8.8 | - | - | 175.5 | 164.4 |
| Services | | - | | - | 19.4 | 21.0 | - | - | 19.4 | 21.0 |
| Total revenue from external customers | 76.2 | 68.7 | 91.5 | 86.9 | 27.2 | 29.8 | - | - | 194.9 | 185.4 |
| Inter-segment revenue ⁽¹⁾ | 1.3 | 1.6 | 1.2 | 1.0 | - | - | (2.5) | (2.6) | - | - |
| Total revenue | 77.5 | 70.3 | 92.7 | 87.9 | 27.2 | 29.8 | (2.5) | (2.6) | 194.9 | 185.4 |

| | | | | | | | | | | |
|---|-------|------|-------|-------|-----|-----|---|---|-------|-------|
| Operating profit before significant items | 13.6 | 12.4 | 5.2 | 3.8 | 1.2 | 1.6 | - | - | 20.0 | 17.8 |
| Amortisation of intangible assets | (0.2) | - | - | - | - | - | - | - | (0.2) | - |
| Profit on the sale of property | 0.3 | - | - | - | - | - | - | - | 0.3 | - |
| Restructuring costs | - | 0.1 | (0.9) | (2.2) | - | - | - | - | (0.9) | (2.1) |
| Goodwill impairment and negative goodwill | - | - | - | (0.7) | - | 0.6 | - | - | - | (0.1) |
| Segment result | 13.7 | 12.5 | 4.3 | 0.9 | 1.2 | 2.2 | - | - | 19.2 | 15.6 |
| Net financial expense | | | | | | | | | (2.1) | (1.4) |
| Taxation | | | | | | | | | (7.7) | (6.5) |
| Profit for the period | | | | | | | | | | |
| Continuing operations | | | | | | | | | 9.4 | 7.7 |
| Discontinued operation ⁽²⁾ | | | | | | | | | 0.4 | - |
| | | | | | | | | | 9.8 | 7.7 |

| | | | | | | | | | | |
|---------------------------|------|------|------|------|------|------|------|-------|-------|-------|
| Segment assets | 48.6 | 39.0 | 52.1 | 54.1 | 20.3 | 18.3 | 1.0 | (0.3) | 122.0 | 111.1 |
| Unallocated assets | | | | | | | | | | |
| Cash and cash equivalents | | | | | | | 12.7 | 14.4 | 12.7 | 14.4 |
| Current tax assets | | | | | | | 0.9 | 2.3 | 0.9 | 2.3 |
| Deferred tax assets | | | | | | | 5.8 | 7.2 | 5.8 | 7.2 |
| Total assets | | | | | | | | | 141.4 | 135.0 |

| | | | | | | | | | | |
|--------------------------|------|------|------|------|-----|-----|------|------|------|------|
| Segment liabilities | 19.4 | 14.3 | 16.4 | 20.0 | 4.6 | 3.3 | 3.6 | 2.5 | 44.0 | 40.1 |
| Unallocated assets | | | | | | | | | | |
| Bank overdrafts | | | | | | | 0.9 | 1.0 | 0.9 | 1.0 |
| Bank loans | | | | | | | 17.2 | 24.7 | 17.2 | 24.7 |
| Current tax liabilities | | | | | | | 7.6 | 2.6 | 7.6 | 2.6 |
| Deferred tax liabilities | | | | | | | 1.1 | 2.4 | 1.1 | 2.4 |
| Total liabilities | | | | | | | | | 70.8 | 70.8 |

| | | | | | | | | | | |
|--------------------------------------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|
| Cash flows from operating activities | 17.9 | 13.9 | 9.2 | 3.0 | 6.6 | 9.8 | (7.3) | (7.3) | 26.4 | 19.4 |
| Cash flows from investing activities | (7.6) | (4.0) | (2.2) | (1.8) | (4.0) | (4.0) | 0.1 | - | (13.7) | (9.8) |
| Cash flows from financing activities | - | - | - | - | - | - | (14.3) | (10.8) | (14.3) | (10.8) |

Capital expenditure (including those acquired within acquisitions)

| | | | | | | | | | | |
|-------------------------------|-----|-----|-----|-----|-----|-----|-----|---|------|-----|
| Property, plant and equipment | 3.3 | 2.4 | 2.4 | 1.2 | 5.4 | 6.0 | 0.1 | - | 11.2 | 9.6 |
| Intangible assets | 2.0 | 0.6 | - | 0.7 | - | - | - | - | 2.0 | 1.3 |

⁽¹⁾ Inter-segment pricing is determined on an arm's length basis.

⁽²⁾ Income from discontinued operation of £0.4 million arose on the release of a previous provision of £0.4 million for the upgrade of retail units relating to the Retail Display business that was divested in 2003.

**Secondary format -
by geographical segments**

| | United Kingdom | | The rest of Europe | | The Americas | | The Rest of the World | | Corporate and Unallocated | | Consolidated | |
|---|----------------|------------|--------------------|------------|--------------|------------|-----------------------|------------|---------------------------|------------|--------------|--------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 £m | 2005 £m | 2004 £m | 2005 £m | 2004 £m | 2005 £m | 2004 £m | 2005 £m | 2004 £m |
| Revenue from external customers : | | | | | | | | | | | | |
| by origin | 37.5 | 40.5 | 70.1 | 66.8 | 85.5 | 78.1 | 1.8 | - | - | - | 194.9 | 185.4 |
| by location of customer | 9.7 | 9.9 | 56.9 | 52.6 | 98.1 | 94.3 | 30.2 | 28.6 | - | - | 194.9 | 185.4 |
| Segment assets | 23.5 | 24.9 | 40.4 | 42.5 | 47.2 | 42.4 | 9.9 | 1.6 | 1.0 | (0.3) | 122.0 | 111.1 |
| Unallocated assets | | | | | | | | | | | | |
| Cash and cash equivalents | | | | | | | | | 12.7 | 14.4 | 12.7 | 14.4 |
| Current tax assets | | | | | | | | | 0.9 | 2.3 | 0.9 | 2.3 |
| Deferred tax assets | | | | | | | | | 5.8 | 7.2 | 5.8 | 7.2 |
| Total assets | | | | | | | | | | | 141.4 | 135.0 |
| Cash flows from operating activities | 1.5 | (1.0) | 17.3 | 11.6 | 14.6 | 15.7 | 0.3 | 0.4 | (7.3) | (7.3) | 26.4 | 19.4 |
| Cash flows from investing activities | (1.6) | (1.2) | (3.2) | (4.3) | (4.3) | (4.3) | (4.7) | - | 0.1 | - | (13.7) | (9.8) |
| Cash flows from financing activities | - | - | - | - | - | - | - | - | (14.3) | (10.8) | (14.3) | (10.8) |
| Capital expenditure (including those acquired within acquisitions) | | | | | | | | | | | | |
| Property, plant and equipment | 1.7 | 0.6 | 3.3 | 2.5 | 5.8 | 6.4 | 0.3 | 0.1 | 0.1 | - | 11.2 | 9.6 |
| Intangible assets | - | 0.7 | 0.5 | 0.6 | 0.1 | - | 1.4 | - | - | - | 2.0 | 1.3 |

4 Cost of Sales and Net Operating Expenses

| | 2005 £m | 2004 £m |
|--|----------------|----------------|
| Cost of sales | (115.6) | (108.9) |
| Gross profit | 79.3 | 76.5 |
| Analysis of net operating expenses | | |
| Distribution costs | | |
| - marketing, selling and distribution costs | 27.0 | 26.3 |
| - research, development and engineering costs ⁽¹⁾ | 7.8 | 7.9 |
| | 34.8 | 34.2 |
| Administrative expenses | | |
| - restructuring costs | 0.9 | 2.1 |
| - goodwill impairment | - | 0.7 |
| - negative goodwill | - | (0.6) |
| - amortisation of acquired intangible assets | 0.2 | - |
| - other administrative expenses | 24.5 | 24.5 |
| | 25.6 | 26.7 |
| Net operating expenses | 60.4 | 60.9 |

⁽¹⁾ No development costs have been capitalised in accordance with the Group accounting policies. Engineering costs are incurred as part of active product development programmes in the manufacturing companies.

Notes to the Consolidated Accounts continued

5 Significant Items

Significant items are those items of financial performance that the directors consider should be separately disclosed to assist in the understanding of the underlying trading and financial performance achieved by the Group and in making projections of future results.

Of the significant items included in net operating expenses, £0.2 million relates to the amortisation of intangible assets acquired as part of the Kata acquisition and £0.9 million relates to the ongoing restructuring costs in Broadcast Systems (primarily severance in connection with the actions taken to enable the business to operate in a more integrated manner).

Other operating income of £0.3 million relates to profit on the sale of property fixed assets (Photographic division).

Prior year significant items included £2.1 million restructuring costs (£2.2 million relating primarily to severance in connection with actions taken to enable Camera Support and Communications businesses to operate in a more integrated manner within the Broadcast Systems division, and £0.1 million of profit relating to restructuring plans in the Photographic division). A related tax credit of £0.9 million was recognised in respect of the restructuring costs.

Also included were £0.7 million of impairment charge in respect of goodwill, that arose on acquisitions of Drake Electronics Limited, in 1998 (£0.4 million) and Vega Holdings Inc, in 1999 (£0.3 million), and a negative goodwill income of £0.6 million which arose on the acquisition of Charter Broadcast North America Inc.

Significant items included in other financial expense comprise the following items:

The Group uses options as part of its hedging of future cash flows. Under IFRS, the Group is able to hedge account for the intrinsic value of such options, but is not permitted to hedge account for the time value of such options. This time value is therefore marked-to-market at each balance sheet date. As such options are held to maturity, the ultimate net amount charged to the income statement in respect of any one option will always equate to the initial premium paid for that option. However, as a result of the mark to market, this may introduce volatile income and expenses between periods and such amounts are therefore being identified as other financial expense. The value of this volatile premium on options recorded in significant items within other financial expense was £0.3 million.

Under IFRS, currency translation differences arising on long-term intra-group funding loans that are similar in nature to equity are charged/credited to reserves. Amounts relating to the currency translation differences arising on certain other intra-group funding balances that do not meet this strict criteria but are very similar in nature are included within other financial expense. The value of currency translation on intra-group funding balances recorded in significant items within other financial expense was £0.2 million.

6 Operating Profit

| | 2005 £m | 2004 £m |
|---|------------|------------|
| The following items are included in operating profit | | |
| Goodwill impairment | - | 0.7 |
| Negative goodwill | - | (0.6) |
| Amortisation of acquired intangible assets | 0.2 | - |
| Amortisation of capitalised software and development costs | 1.0 | 0.8 |
| Depreciation | 8.9 | 9.4 |
| Net gain on disposal of property, plant and equipment | (1.6) | (1.0) |
| Operating lease rental expense | | |
| Plant, machinery and vehicles | 0.3 | 0.2 |
| Property | 3.1 | 3.4 |
| Auditors' remuneration | | |
| Audit fees | 0.4 | 0.3 |
| Other fees paid to the auditors and its associates | 0.4 | 0.5 |

Other fees paid to the auditors comprise tax advice £0.2 million (2004: £0.3 million); due diligence assistance on acquisitions £0.1 million (2004: £0.1 million); and other (including a review of the interim accounts) £0.1 million (2004: £0.1 million).

7 Employees

| | 2005 £m | 2004 £m |
|--|-------------|-------------|
| Aggregate remuneration of all employees during the year | | |
| Wages and salaries | 45.2 | 42.7 |
| Employers' social security costs | 6.2 | 6.1 |
| Employers' pension costs - defined benefit schemes | 2.2 | 2.1 |
| Employers' pension costs - defined contribution schemes | 0.4 | 0.3 |
| Other post-employment benefits | 1.1 | 1.0 |
| Cost of equity-settled employee share schemes | 0.3 | 0.1 |
| | 55.4 | 52.3 |

| | 2005 £m | 2004 £m |
|--|--------------|--------------|
| Average number of employees during the year | | |
| <i>Photographic</i> | 650 | 639 |
| Broadcast Systems | 704 | 734 |
| Broadcast Services | 171 | 165 |
| Head office | 13 | 12 |
| | 1,538 | 1,550 |

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 18 to 24.

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

| | 2005 £m | 2004 £m |
|-----------------------------------|------------|------------|
| Fees for non-executive duties | 0.2 | 0.1 |
| Remuneration for executive duties | 0.8 | 0.7 |
| | 1.0 | 0.8 |

Notes to the Consolidated Accounts continued

9 Net Financial Expense

| | 2005 £m | 2004 £m |
|---|--------------|--------------|
| Interest payable on bank borrowings | (1.5) | (1.7) |
| Interest charge on pension scheme liabilities | (2.0) | (1.1) |
| Net fair value losses in financial instruments ⁽¹⁾ | (0.8) | |
| Net foreign exchange losses ⁽²⁾ | (0.2) | (0.1) |
| Other financial expense | (1.0) | (0.1) |
| Financial expenses | (4.5) | (2.9) |
| Interest income | 0.2 | 0.1 |
| Expected return on assets in the pension scheme | 2.2 | 1.4 |
| Financial income | 2.4 | 1.5 |
| Net financial expense | (2.1) | (1.4) |

⁽¹⁾ The Group uses options as part of its hedging of future cash flows. Under IFRS, the Group is able to hedge account for the intrinsic value of such options, but is not permitted to hedge account for the time value of such options. This time value is therefore marked-to-market at each balance sheet date. As such options are held to maturity, the ultimate net amount charged to the income statement in respect of any one option will always equate to the initial premium paid for that option. However, as a result of the mark to market, this may introduce volatile income and expenses between periods and such amounts are therefore being identified as other financial expense. The value of this volatile premium on options recorded in significant items within other financial expense was £0.3 million. The value of amortisation of options recorded within other financial expense as a non-significant item was £0.5 million. The total is therefore £0.8 million. Because this is the first year of adoption of IAS 39 there are no comparatives for this amount.

⁽²⁾ Under IFRS, currency translation differences arising on long-term intra-group funding loans that are net investments are charged/credited to reserves. Amounts relating to the currency translation differences arising on certain other intra-group funding balances that do not meet this strict criteria but are very similar in nature are included within other financial expense. The value of currency translation on intra-group funding balances recorded in significant items within other financial expense was £0.2 million.

10 Net Foreign Exchange Losses

The exchange differences charged to the income statement are included as follows:

| | 2005 £m | 2004 £m |
|---------------------------------|------------|------------|
| Cost of goods sold | 0.8 | 1.6 |
| Net financial expense | 0.2 | 0.1 |
| Total net foreign exchange loss | 1.0 | 1.7 |

11 Tax

Recognised in the income statement

| | 2005 £m | 2004 £m |
|---|------------|------------|
| Current tax expense | | |
| Current year | 6.4 | 5.8 |
| Adjustment for prior years | 0.2 | (0.6) |
| | 6.6 | 5.2 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 0.1 | 2.0 |
| Amortisation of permanent differences | 0.3 | 0.2 |
| Benefit of tax losses recognised | 1.4 | - |
| Adjustment for prior years | (0.7) | - |
| | 1.1 | 2.2 |
| Total income tax expense in income statement | 7.7 | 7.4 |

| Reconciliation of effective tax rate | 2005 | 2005 | 2004 | 2004 |
|--|------|-------|------|-------|
| Profit before tax | | 18.4 | | 16.5 |
| Income tax using the domestic corporation rate | 30% | 5.4 | 30% | 4.8 |
| Effect of tax rates in foreign jurisdictions | 14% | 2.6 | 10% | 1.6 |
| Prior year adjustment | 1% | 0.2 | -4% | (0.6) |
| Non-deductible expenses | 4% | 0.7 | 4% | 0.7 |
| Tax-deductible expenses not recognised in the income statement | -3% | (0.6) | -4% | (0.6) |
| Tax exempt revenues | -3% | (0.6) | 8% | 1.3 |
| Tax effect of profit elimination on intra-group stock | -1% | (0.1) | 1% | 0.1 |
| Other | 0% | 0.1 | 0% | 0.1 |
| | 42% | 7.7 | 45% | 7.4 |

All of the income tax expense relates to overseas tax. There is no income tax expense relating to the UK as a result of UK losses.

There is no income tax expense relating to significant items as all the significant items relate to the UK, where there is no income tax expense.

There is no deferred tax being recognised directly in equity.

Notes to the Consolidated Accounts continued

12 Earnings Per Ordinary Share

The calculation of basic earnings per share is based on profit after tax of £9.8 million (2004: £7.7 million) and on the weighted average number of shares in issue during the year of 41,084,054 (2004: 41,062,429).

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 before significant items from continuing operations. In 2005 this profit was £10.7 million (2004: £9.1 million).

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

| | Profit | | Earnings per share | |
|--|------------|------------|--------------------|---------------|
| | 2005 £m | 2004 £m | 2005 pence | 2004 pence |
| Profit for the financial year | 9.8 | 7.7 | 23.9 | 18.8 |
| Less: discontinued operation | (0.4) | - | (1.0) | - |
| Profit from continuing operations | 9.4 | 7.7 | 22.9 | 18.8 |
| Add back: significant items | 1.3 | 1.4 | 3.1 | 3.4 |
| Earnings before significant items from continuing operations | 10.7 | 9.1 | 26.0 | 22.2 |

The calculation of diluted earnings per share of 23.7p (2004: 18.7p) is based on profit after tax of £9.8 million (2004: £7.7 million) and on 41,352,795 (2004: 41,236,750) ordinary shares, calculated as follows:

Reconciliation of shares and its effect on basic earnings per share and diluted earnings per share

| | Number of shares | | Earnings per share | |
|---|------------------|------------|--------------------|---------------|
| | 2005 | 2004 | 2005 pence | 2004 pence |
| Basic weighted average number of shares | 41,084,054 | 41,062,429 | 23.9 | 18.8 |
| Dilutive potential ordinary shares: | | | | |
| Employee share options | 179,712 | 143,894 | (0.1) | (0.1) |
| Deferred bonus plan | 89,029 | 30,427 | (0.1) | - |
| Diluted weighted average number of shares | 41,352,795 | 41,236,750 | 23.7 | 18.7 |

13 Property, Plant and Equipment

| | Total £m | Land and buildings £m | Plant machinery and vehicles ⁽¹⁾ £m | Equipment fixtures and fittings £m |
|---|--------------|-----------------------------|---|---|
| Cost | | | | |
| At 1 January 2004 | 90.7 | 19.2 | 56.6 | 14.9 |
| Currency translation adjustments | (2.7) | (0.1) | (2.4) | (0.2) |
| Acquisitions | 0.9 | - | 0.9 | - |
| Additions | 8.7 | 0.6 | 7.1 | 1.0 |
| Disposals | (2.6) | - | (2.1) | (0.5) |
| At 31 December 2004 | 95.0 | 19.7 | 60.1 | 15.2 |
| At 1 January 2005 | 95.0 | 19.7 | 60.1 | 15.2 |
| Currency translation adjustments | 3.7 | (0.2) | 3.8 | 0.1 |
| Acquisitions | 0.1 | - | - | 0.1 |
| Additions | 11.1 | 0.6 | 8.7 | 1.8 |
| Disposals | (5.3) | (1.9) | (2.5) | (0.9) |
| At 31 December 2005 | 104.6 | 18.2 | 70.1 | 16.3 |
| Depreciation and impairment losses | | | | |
| At 1 January 2004 | 58.9 | 7.3 | 41.7 | 9.9 |
| Currency translation adjustments | (1.9) | - | (1.7) | (0.2) |
| Depreciation charge for the year | 9.4 | 0.9 | 7.1 | 1.4 |
| Disposals | (2.1) | - | (1.8) | (0.3) |
| At 31 December 2004 | 64.3 | 8.2 | 45.3 | 10.8 |
| At 1 January 2005 | 64.3 | 8.2 | 45.3 | 10.8 |
| Currency translation adjustments | 2.6 | - | 2.5 | 0.1 |
| Depreciation charge for the year | 8.9 | 0.7 | 6.9 | 1.3 |
| Disposals | (4.8) | (1.7) | (2.3) | (0.8) |
| At 31 December 2005 | 71.0 | 7.2 | 52.4 | 11.4 |
| Carrying amounts | | | | |
| At 1 January 2004 | 31.8 | 11.9 | 14.9 | 5.0 |
| At 31 December 2004 | 30.7 | 11.5 | 14.8 | 4.4 |
| At 1 January 2005 | 30.7 | 11.5 | 14.8 | 4.4 |
| At 31 December 2005 | 33.6 | 11.0 | 17.7 | 4.9 |

⁽¹⁾ Plant, machinery and vehicles includes broadcast equipment rental assets with an original cost of £40.0 million (2004: £32.1 million) and accumulated depreciation of £28.2 million (2004: £25.5 million).

Capital commitments at 31 December 2005, for which no provision has been made in the accounts, amount to £0.1 million (2004: £0.1 million).

Notes to the Consolidated Accounts continued

14 Intangible Assets

| | Total £m | Acquired intangible assets ⁽¹⁾ £m | Goodwill | Capitalised software and development costs £m |
|---|-------------|---|--------------------|---|
| Cost | | | | |
| At 1 January 2004 | 20.0 | - | 15.7 | 4.3 |
| Currency translation adjustment | (0.7) | - | (0.7) | - |
| Additions | 2.3 | - | 1.0 | 1.3 |
| At 31 December 2004 | 21.6 | - | 16.0 | 5.6 |
| At 1 January 2005 | 21.6 | - | 16.0 | 5.6 |
| Currency translation adjustment | 1.4 | - | 1.3 | 0.1 |
| Additions | 0.6 | - | - | 0.6 |
| Acquisitions | 6.8 | 1.4 ⁽¹⁾ | 5.4 ⁽²⁾ | - |
| At 31 December 2005 | 30.4 | 1.4 | 22.7 | 6.3 |
| Amortisation and impairment losses | | | | |
| At 1 January 2004 | 7.6 | - | 6.0 | 1.6 |
| Currency translation adjustment | (0.3) | - | (0.3) | - |
| Impairment charge | 0.7 | - | 0.7 ⁽³⁾ | - |
| Amortisation for the year | 0.8 | - | - | 0.8 |
| At 31 December 2004 | 8.8 | - | 6.4 | 2.4 |
| At 1 January 2005 | 8.8 | - | 6.4 | 2.4 |
| Currency translation adjustment | 0.5 | - | 0.5 | - |
| Impairment charge | - | - | - | - |
| Amortisation for the year | 1.2 | 0.2 | - | 1.0 |
| At 31 December 2005 | 10.5 | 0.2 | 6.9 | 3.4 |
| Carrying amounts | | | | |
| At 1 January 2004 | 12.4 | - | 9.7 | 2.7 |
| At 31 December 2004 | 12.8 | - | 9.6 | 3.2 |
| At 1 January 2005 | 12.8 | - | 9.6 | 3.2 |
| At 31 December 2005 | 19.9 | 1.2 | 15.8 | 2.9 |

⁽¹⁾ Acquired intangible assets comprise sales order backlog, brand name, and customer relationships arising on the acquisition of Kata. These are amortised using the straight line method over their estimated useful life of five years.

⁽²⁾ £5.4 million represents goodwill arising on the acquisition of the business and assets of Kata International Limited and Kata Professional (Kimchi and Tishler) Limited (Kata), the designer and manufacturer of premium protective carrying bags for cameras and accessories in the photographic and broadcast markets, on 31 May 2005.

The results of Kata have been included in the Photographic division (see Note 26).

⁽³⁾ The impairment charge in 2004 of £0.7 million is in respect of goodwill that arose on the acquisition of Drake Electronics Limited in 1998 (£0.4 million), and Vega Holdings Inc in 1999 (£0.3 million).

Impairment tests for cash-generating assets containing goodwill

Goodwill is analysed as follows:

| Unit | 2005 £m | 2004 £m |
|-------------------------------|-------------|------------|
| Photographic (excluding Kata) | 2.8 | 2.8 |
| Kata | 5.4 | - |
| Broadcast Services | 3.3 | 2.9 |
| Broadcast Systems | 4.1 | 3.9 |
| Total | 15.6 | 9.6 |

Impairment tests for all the above units have been carried out based on value in use calculations. Except for Broadcast Services, these calculations use cash flow projections based on actual operating results and five year projections. Cash flows thereafter are extrapolated using a one to two percent growth rate which is considered appropriate because these businesses are long term in nature. These growth rates are consistent with the long term average growth rates for these industries. In the case of Broadcast Services, the calculation has used cash flow projections for 20 years in order to take into account the highly cyclical nature of this business. A pre-tax discount rate of 14 to 16 per cent has been used in discounting the project cash flows for all the above units.

The key assumption and the approach to determining the calculated values is revenue and price growth which is determined by statistical analysis of long-term market price trends adjusted annually for actual experience.

The calculations demonstrated that no impairment had arisen in respect of goodwill.

Notes to the Consolidated Accounts continued

15 Investments in subsidiaries

Principal subsidiaries

The Group's principal subsidiaries at 31 December 2005 are listed below. All subsidiaries are 100% owned within the Group.

| | Country of incorporation |
|--------------------------------|--------------------------|
| Vitec Group US Holdings Inc | USA |
| Vitec Luxembourg Holdings Sarl | Luxembourg |

Broadcast Systems

| | |
|---|------------|
| Anton/Bauer Inc | USA |
| Centro de Produccion Profesional CPP Limitada | Costa Rica |
| Radamec Broadcast Systems Limited | UK |
| Sachtler Corporation of America | USA |
| Sachtler GmbH & Co. KG | Germany |
| Vinten Broadcast Limited | UK* |
| Vinten Inc | USA |
| Vitec Group Communications Inc | USA |
| Vitec Group Communications Limited | UK* |

Photographic

| | |
|-------------------------|--------|
| Bogen Imaging Inc | USA |
| Gitzo SA | France |
| Gruppo Manfrotto Srl | Italy |
| Kata Vitec I Limited | Israel |
| Lino Manfrotto & Co SpA | Italy |

Broadcast Services

| | |
|------------------------------|-----|
| Vitec Broadcast Services Inc | USA |
|------------------------------|-----|

* Indicates companies directly owned by the parent company

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

16 Deferred Tax Assets and Liabilities

| | 2005 £m | Recognised in income £m | Recognised in reserves £m | 2004 £m |
|---|------------|-------------------------------|---------------------------------|------------|
| Assets | | | | |
| Inventories | 0.9 | 0.1 | - | 0.8 |
| Intangible assets | 3.0 | (0.7) | 0.3 | 3.4 |
| Tax value of loss carry-forwards recognised | 0.2 | (1.4) | - | 1.6 |
| Property, plant & equipment | 1.7 | 0.4 | (0.1) | 1.4 |
| | 5.8 | (1.6) | 0.2 | 7.2 |
| Liabilities | | | | |
| Intangible assets | (0.3) | - | (0.3) | - |
| Property, plant & equipment | (0.6) | 0.5 | (0.1) | (1.0) |
| Inventories | (0.2) | - | 1.2 | (1.4) |
| | (1.1) | 0.5 | 0.8 | (2.4) |
| Net | 4.7 | (1.1) | 1.0 | 4.8 |

| | 2004 £m | Recognised in income £m | Recognised in reserves £m | 2003 £m |
|---|------------|-------------------------------|---------------------------------|------------|
| Assets | | | | |
| Inventories | 0.8 | (0.1) | - | 0.9 |
| Intangible assets | 3.4 | (0.7) | 0.4 | 3.7 |
| Tax value of loss carry-forwards recognised | 1.6 | - | 0.9 | 0.7 |
| Property, plant & equipment | 1.4 | (0.2) | - | 1.6 |
| | 7.2 | (1.0) | 1.3 | 6.9 |
| Liabilities | | | | |
| Property, plant & equipment | (1.0) | (1.1) | 0.1 | - |
| Inventories | (1.4) | (0.1) | - | (1.3) |
| | (2.4) | (1.2) | 0.1 | (1.3) |
| Net | 4.8 | (2.2) | 1.4 | 5.6 |

Notes to the Consolidated Accounts continued

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | 2005 £m | 2004 £m |
|---------------|------------|------------|
| UK tax losses | 8.9 | 9.1 |

Deferred tax assets have not been recognised in respect of these items because it is not sufficiently probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

No taxes have been provided for liabilities which may arise on the distribution of unremitted earnings of subsidiaries on the basis of control. Cumulative unremitted earnings of overseas subsidiaries and associates totalled approximately £55 million at 31 December 2005 (2004: £52 million). It is not practicable to calculate the tax which would arise on remittance of these amounts, though it would be substantially lower than statutory rates after giving effect to foreign tax credits.

17 Inventories

| | 2005 £m | 2004 £m |
|------------------------------|------------|------------|
| Raw materials and components | 9.9 | 10.0 |
| Work in progress | 5.9 | 7.3 |
| Finished goods | 15.5 | 15.3 |
| | 31.3 | 32.6 |

See Note 30, Accounting Estimates and Judgements, for details of the provision held against inventory.

18 Trade and Other Receivables

| | 2005 £m | 2004 £m |
|--|-------------|-------------|
| Current receivables | | |
| Trade receivables | 30.5 | 26.2 |
| Amounts recoverable on long term contracts | 0.7 | 2.1 |
| Other receivables | 4.3 | 2.8 |
| Prepayments and accrued income | 1.2 | 2.2 |
| | 36.7 | 33.3 |
| Non-current receivables | | |
| Prepayments and accrued income | - | 0.6 |
| Other receivables | 0.3 | 1.1 |
| | 0.3 | 1.7 |
| Total receivables | 37.0 | 35.0 |

See Note 30, Accounting Estimates and Judgements, for details of the provision held against receivables.

19 Derivative Financial Instruments

An explanation of the Group's treasury policy and controls is included in the Financial Review on page 12.

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates only.

Credit Risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group. Transactions involving derivative financial instruments are with counterparties with whom the Group has a signed netting agreement as well as sound credit ratings. Given their high credit ratings management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest Rate Risk

All the Group's borrowings and investments are at floating rates. Given the Group's low net debt, management believes that the benefits of fixing a proportion of its interest costs are outweighed by the costs.

Foreign Currency Risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the business unit. The currencies giving rise to this risk are primarily US\$, Euros and Japanese Yen.

The Group aims to hedge 75 per cent of its forecasted foreign currency exposure in respect of forecasted sales and purchases for the following 12 months and up to 50 per cent of the exposure for between 12 months and 18 months. The Group uses forward exchange contracts (forwards), simple options and 'cylinders' (a combination of two offsetting simple options at different rates) to hedge its foreign currency risk. The majority of these contracts have maturities of less than one year at the balance sheet date.

In respect of other monetary assets and liabilities held in currencies other than sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

Forecasted Transactions

The Group classifies its derivatives hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of these derivatives at 1 January 2005 was adjusted against the opening balance of the cash flow hedging reserve at that date.

Recognised Assets and Liabilities

Changes in the fair value of derivatives that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the derivatives and the foreign exchange gains and losses relating to the monetary items are recognised as part of 'Cost of Sales'.

Hedge of net investment in foreign subsidiary

The Group's US\$ and Euro loans and certain forward contracts are designated as a hedge of the Group's investment in subsidiaries overseas. Inter-company loans for which payment is not planned in the foreseeable future are classified as net investments and so taken to reserves.

Sensitivity Analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 31 December 2005, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £0.1 million. This reflects increased interest costs on the Group's borrowings and increased interest income on the Group's investments.

It is estimated that a general decrease of one percentage point in the value of US\$ against other foreign currencies would have had a negligible effect for the year ended 31 December 2005. The derivatives have been included in this calculation.

Notes to the Consolidated Accounts continued

19 Derivative Financial Instruments continued

Fair Value

The fair values together with the carrying amounts shown in the balance sheet are as follows:

| a) Fair value of financial assets and liabilities | Fair value and book value | Fair value and book value |
|---|---------------------------|---------------------------|
| | 2005 £m | 2004 £m |
| Forward exchange contracts - Assets | 0.1 | 0.3 |
| Forward exchange contracts - Liabilities | (0.9) | - |
| Option exchange contracts - Assets | 0.1 | 1.2 |
| Option exchange contracts - Liabilities | - | - |
| Cash at bank and in hand | 12.7 | 14.4 |
| Bank overdraft | (0.9) | (1.0) |
| Floating rate borrowings | (17.2) | (24.7) |
| | (6.1) | (9.8) |

Market rates have been used to determine fair values.

Estimation of Fair Values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Derivatives

Forwards are marked to market by calculating the contractual forward price and deducting the current spot rate. Options and cylinders are marked to market by obtaining quotes from banks of their market value as at 31 December.

Maturity profile of Derivatives

| | Total £m | Within one year or less £m | More than one year but not more than two years £m | More than two years £m |
|--|-------------|-------------------------------------|---|---------------------------------|
| | 2005 | | | |
| Forward exchange contracts - Assets | 0.1 | 0.1 | - | - |
| Forward exchange contracts - Liabilities | (1.1) | (1.0) | (0.1) | - |
| Option exchange contracts - Assets | 0.1 | 0.1 | - | - |
| Option exchange contracts - Liabilities | - | - | - | - |
| | (0.9) | (0.8) | (0.1) | - |
| | 2004 | | | |
| Forward exchange contracts - Assets | 0.3 | 0.3 | - | - |
| Forward exchange contracts - Liabilities | - | - | - | - |
| Option exchange contracts - Assets | 1.2 | 1.2 | - | - |
| Option exchange contracts - Liabilities | - | - | - | - |
| | 1.5 | 1.5 | - | - |

All the options are to sell Euros for US Dollars and have an exercise price between US\$1.15 = €1 and US\$1.31 = €1.

Interest-bearing loans and borrowings

All interest bearing loans and borrowings are at floating rates. Therefore, the fair value of these loans and borrowings is their carrying value.

Trade and other receivables/payables

For trade receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other trade receivables and payables are discounted to determine the fair value, which is equal to their carrying amount.

b) Financial liabilities

i) Analysis of borrowings

| | 2005 £m | Group 2004 £m |
|-----------------------------|------------|---------------------|
| Overdrafts | 0.9 | 1.0 |
| Bank loans | 17.2 | 24.7 |
| Total borrowings | 18.1 | 25.7 |
| Forward exchange contracts | 0.9 | - |
| Gross financial liabilities | 19.0 | 25.7 |

b) Financial liabilities continued

ii) Maturity profile

| | 2005 £m | Group 2004 £m |
|--|------------|---------------------|
| Within one year or less | 1.7 | 25.7 |
| More than one year but not more than two years | 0.1 | - |
| More than two years but not more than five years | 17.2 | - |
| | 19.0 | 25.7 |

The Group's previous committed facility agreements were due to terminate in 2005. On 25 January 2005 the Group signed a 5 year £100 million Multicurrency Revolving Credit Facility Agreement with a syndicate of UK banks.

The total amount of bank loans and overdrafts any part of which falls due after five years is £nil (2004: £nil).

The Group had the following undrawn borrowing facilities at the end of the period:

| | 2005 £m | 2004 £m |
|--|------------|------------|
| Expiring in one year or less | | |
| - committed facilities | - | 30.3 |
| - uncommitted facilities | 8.6 | 13.5 |
| More than one year but not more than two years | | |
| - committed facilities | - | - |
| More than two years but not more than three years | | |
| - committed facilities | 82.8 | - |
| Total | 91.4 | 43.8 |

Notes to the Consolidated Accounts continued

19 Derivative Financial Instruments continued

iii) Interest rate profile

| Currency | Total £m | Floating rate borrowings £m |
|---------------------|-------------|-----------------------------------|
| Sterling | 0.9 | 0.9 |
| US\$ | 3.5 | 3.5 |
| Euro | 13.7 | 13.7 |
| At 31 December 2005 | 18.1 | 18.1 |
| Sterling | 13.0 | 13.0 |
| US\$ | 4.2 | 4.2 |
| Euro | 8.5 | 8.5 |
| At 31 December 2004 | 25.7 | 25.7 |

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

c) Financial assets

| Currency | 2005 £m | 2004 £m |
|----------------------------|------------|------------|
| Sterling | 0.2 | - |
| US\$ | 6.3 | 7.1 |
| Euro | 5.4 | 6.4 |
| Other | 0.8 | 0.9 |
| Total cash balances | 12.7 | 14.4 |
| Forward exchange contracts | 0.1 | 0.3 |
| Option contracts | 0.1 | 1.2 |
| Gross financial assets | 12.9 | 15.9 |

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

Sterling, US\$, Euro and Yen balances within the UK can be offset.

20 Current Tax

The current net tax liability of £6.7 million (2004: £0.3 million) represents the amount of income taxes payable in respect of current and prior periods.

21 Cash and Cash Equivalents

| | 2005 £m | 2004 £m |
|--|------------|------------|
| Cash and cash equivalents | 12.7 | 14.4 |
| Bank overdrafts | (0.9) | (1.0) |
| Cash and cash equivalents in the cash flow statement | 11.8 | 13.4 |

22 Reconciliation of Decrease in Cash and Cash Equivalents to Movement in Net Debt⁽¹⁾

| | 2005 £m | 2004 £m |
|---|--------------|---------------|
| Decrease in cash and cash equivalents | (1.6) | (1.2) |
| Net repayment of loans | 8.2 | 1.6 |
| Reduction in net debt resulting from cash flows | 6.6 | 0.4 |
| Exchange on cash movements | - | (1.0) |
| Exchange on loan movements | (0.7) | (0.3) |
| Exchange rate movements | (0.7) | (1.3) |
| Movements in net debt in the period | 5.9 | (0.9) |
| Net debt at 1 January | (11.3) | (10.4) |
| Net debt at 31 December | (5.4) | (11.3) |

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

⁽¹⁾ Net debt constitutes cash and cash equivalents, bank overdrafts and bank loans.

Notes to the Consolidated Accounts continued

23 Trade and Other Payables

| | 2005 £m | 2004 £m |
|---|------------|------------|
| Current trade and other payables | | |
| Payments received on account | 0.3 | 0.4 |
| Trade payables | 16.6 | 15.7 |
| Other tax and social security costs | 1.9 | 1.8 |
| Other payables | 5.8 | 3.8 |
| Accruals and deferred income | 6.9 | 5.7 |
| | 31.5 | 27.4 |
| Non-current trade and other payables | | |
| Other payables | 0.1 | - |
| Accruals and deferred income | 0.1 | 0.1 |
| | 0.2 | 0.1 |

24 Provisions

| | Total £m | Restructuring £m | Warranty £m | Contingent consideration on acquisition of subsidiary £m | Other £m |
|---------------------------------------|-------------|---------------------|----------------|--|-------------|
| At 1 January 2005 | 2.9 | 1.5 | 1.0 | - | 0.4 |
| Provisions utilised during the year | (2.3) | (2.2) | (0.1) | - | - |
| Charged to the income statement | 0.6 | 0.9 | 0.1 | - | (0.4) |
| Acquisition of subsidiary undertaking | 2.5 | - | - | 2.5 | - |
| Currency translation adjustments | 0.2 | - | - | 0.2 | - |
| At 31 December 2005 | 3.9 | 0.2 | 1.0 | 2.7 | - |
| Non-current | 2.7 | - | - | 2.7 | - |
| Current | 1.2 | 0.2 | 1.0 | - | - |
| | 3.9 | 0.2 | 1.0 | 2.7 | - |

The contingent consideration on acquisition of a subsidiary of £2.5 million relates to an estimated deferred payment of US\$4.6 million on the acquisition of Kata. Whilst the total potential contingent consideration payable is US\$13 million (£7.1 million) conditional upon its future sales and profitability, management believe that US\$4.6 million is a realistic estimate of the actual payout. The payments will be made between 2006 and 2008.

The remaining other provisions comprise warranty provisions of £1.0 million (2004: £1.0 million) and the provision for restructuring of £0.2 million (2004: £1.5 million). The warranty provision is calculated based on the sale of products under warranty and is consistent with previous years. The provision is expected to be utilised over the warranty period (2 years). The restructuring provision will be utilised during 2006.

25 Capital and Reserves

| | Share Capital £m | Share Premium £m | Translation reserve £m | Capital Redemption reserve £m | Cash flow hedging reserve £m | Retained earnings £m | Total Equity £m |
|---|------------------------|------------------------|------------------------------|--|---------------------------------------|----------------------------|-----------------------|
| At 1 January 2004 | 8.2 | 2.6 | - | 1.6 | | 57.7 | 70.1 |
| Total recognised income for the year | | | (4.0) | | | 7.1 | 3.1 |
| Dividends paid | | | | | | (9.2) | (9.2) |
| Equity-settled transactions, net of tax | | | | | | 0.1 | 0.1 |
| Premium on new shares issued | | 0.1 | | | | | 0.1 |
| At 31 December 2004 | 8.2 | 2.7 | (4.0) | 1.6 | | 55.7 | 64.2 |
| Adjustment in respect of adoption of IAS 32 and IAS 39 on 1 January 2005 | | | | | 0.8 | 0.4 | 1.2 |
| At 1 January 2005 | 8.2 | 2.7 | (4.0) | 1.6 | 0.8 | 56.1 | 65.4 |
| Total recognised income for the year | | | 2.2 | | (1.5) | 10.3 | 11.0 |
| Dividends paid | | | | | | (6.1) | (6.1) |
| Equity-settled transactions, net of tax | | | | | | 0.3 | 0.3 |
| At 31 December 2005 | 8.2 | 2.7 | (1.8) | 1.6 | (0.7) | 60.6 | 70.6 |

The Group adopted IAS 32 & IAS 39 on 1 January 2005. On adoption, the Group recognised an additional £1.2 million of derivatives on the balance sheet. Of this amount, £0.8 million related to derivatives in cash flow hedging relationships and £0.4 million related to the time value of options recorded in retained earnings.

During the year, the £0.8 million related to derivatives in cash flow hedging relationships was released to the income statement in 'Cost of sales'. Also, further derivatives were acquired for cash flow hedging relationships which were valued at (£0.7) million at the end of the year. The total movement in the cash flow hedging reserve during the year was therefore (£1.5) million.

Translation reserve

The translation reserve comprises all currency translation differences arising from the translation of the financial statements of foreign operations, as well as from the translation of monetary items designated as foreign net investments.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Capital redemption reserve

This reserve was created in 1999 when the Company purchased, and subsequently cancelled, 885,000 ordinary shares.

Dividends

After the balance sheet date the following dividend was recommended by the directors. The dividend has not been provided for at the year end and there are no tax consequences.

| | 2005 £m | 2004 £m |
|-----------------------------|------------|------------|
| 9.4p per share (2004: 8.9p) | 3.9 | 3.7 |

Notes to the Consolidated Accounts continued

25 Capital and Reserves continued

Share capital and share premium

The authorised share capital at 31 December 2005 consisted of 65,000,000 (2004: 65,000,000) shares of 20p each, of which 41,086,719 were allotted and fully paid. The movement during the year was:

| | Shares | Issued share capital £m |
|---------------------------|------------|----------------------------|
| At 1 January 2005 | 41,081,105 | 8.2 |
| Exercise of share options | 5,614 | - |
| At 31 December 2005 | 41,086,719 | 8.2 |

At 31 December 2005 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 | 270,962 | 231p-595p | 2006-2012 |
| International SAYE plans | 262,615 | 231p-439p | 2006-2010 |
| Executive schemes | 1,416,590 | 257.5p-653p | 2006-2015 |
| | 1,950,167 | | |

On 2 June 2005, awards over an aggregate of 557,090 shares in the Company were made to 67 senior Group executives under the Company's Long Term Incentive Plan. The total number of shares outstanding at 31 December 2005 under the Company's Long Term Incentive Plan was 914,279 (2004: 476,283). The terms of the awards and the related performance conditions are described in the Remuneration Report.

On 30 June 2005, awards over an aggregate of 93,441 shares in the Company were made to nine senior Group executives under the Company's Deferred Bonus Plan. The total number of shares outstanding at 31 December 2005 under the Company's Deferred Bonus Plan was 140,161 (2004: 47,295). The terms of the awards and the related performance conditions are described in the Remuneration Report.

26 Acquisitions of Businesses

On 31 May 2005 the Group acquired the business and assets of Kata International Limited and Kata Professional (Kimchi and Tishler) Limited ('Kata'), the designer and manufacturer of premium protective carrying bags for cameras and accessories in the photographic and broadcast markets. The net cash consideration (after taking account of £0.1 million cash in the business at acquisition date and including acquisition expenses) amounted to US\$8.3 million (£4.6 million) and there is an estimated contingent consideration of US\$4.6 million (£2.5 million) conditional upon future sales and profitability targets. Based on an assessment of the fair values of the tangible and intangible assets, goodwill of £5.4 million arose on acquisition.

As part of the fair value exercise, intangible fixed assets comprising sales order backlog (£0.1 million), brand name (£0.3 million) and customer relationships (£1.0 million) were identified.

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

| | Book value £m | Fair value adjustments £m | As adjusted £m |
|---|---------------------|---------------------------------|----------------------|
| Net Assets acquired | | | |
| Intangible assets | - | 1.4 | 1.4 |
| Deferred tax on intangible assets | - | (0.3) | (0.3) |
| Property, plant and equipment | 0.1 | - | 0.1 |
| Inventories | 0.4 | 0.2 | 0.6 |
| Trade and other receivables | 0.7 | - | 0.7 |
| Cash and cash equivalents | 0.1 | - | 0.1 |
| Trade and other payables | (0.8) | - | (0.8) |
| | 0.5 | 1.3 | 1.8 |
| Purchased goodwill | | | 5.4 |
| Total purchase consideration, including expenses | | | 7.2 |
| Net outflow of cash in respect of acquisitions | | | |
| Total purchase consideration, including expenses | | | 7.2 |
| Contingent consideration | | | (2.5) |
| Cash paid for acquisition, including expenses | | | 4.7 |
| Net cash acquired | | | (0.1) |
| Total outflow of cash from Group | | | 4.6 |

The results of Kata for the seven months ending 31 December 2005 have been included in the Photographic division and comprise:

| | £m |
|-----------------------|----------------------|
| External revenue | 1.7 |
| Inter-segment revenue | 0.9 |
| Total revenue | 2.6 |
| Cost of sales | (1.6) |
| Operating expenses | (1.0) ⁽¹⁾ |
| Operating profit | - |

Management has taken the option under IFRS 3 not to disclose the full year results because of the complexity of the pre-acquisition structure of the business.

⁽¹⁾ Operating expenses includes £0.2 million of amortisation of intangible assets.

Notes to the Consolidated Accounts continued

26 Acquisitions of Businesses continued

On 30 March 2004 the Group acquired the operating assets and certain liabilities of Charter Broadcast North America Inc., a provider of broadcast rental equipment in the United States and Canada, for a nominal sum which, with transaction costs, brought the total acquisition cost to US\$0.1 million cash (£0.1 million). Based on an assessment of fair values, negative goodwill of £0.6 million arose on acquisition.

The acquisition was funded from existing cash resources and was 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 | - | - | - | - |
| Tangible fixed assets | 0.8 | - | 0.1 | 0.9 |
| Stocks | - | - | - | - |
| Debtors | - | - | - | - |
| Creditors | - | - | (0.2) | (0.2) |
| | 0.8 | - | (0.1) | 0.7 |
| Negative goodwill | | | | (0.6) |
| Total cost of acquisition, including expenses, satisfied by cash | | | | 0.1 |

| | £m |
|---|-----|
| Net outflow of cash in respect of acquisitions | |
| Total cost of acquisitions including expenses | 0.1 |
| Net cash acquired | - |
| Total outflow of cash from Group | 0.1 |

The results of Charter Broadcast North America Inc. were included in the Broadcast Services division and comprise:

| | £m |
|--------------------|-------|
| Turnover | 1.8 |
| Cost of sales | (1.0) |
| Operating expenses | (0.2) |
| Operating profit | 0.6 |

The fair value adjustments represent an increase in book value of rental assets following an appraisal exercise and a recognition of liabilities in respect of refurbishment costs.

On 8 January 2004 the Group acquired the domestic distribution activity of Multiblitz (Dr. Ing. D.A. Mannesmann GmbH & Co KG), a distributor of the Group's Manfrotto products in Germany, for €2.0 million cash (£1.4 million). Based on an assessment of fair values, goodwill of £1.0 million arose on acquisition.

The acquisition was funded from existing cash resources and was 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 | - | - | - | - |
| Tangible fixed assets | - | - | - | - |
| Stocks | 0.3 | - | - | 0.3 |
| Debtors | 0.2 | - | - | 0.2 |
| Creditors | (0.1) | - | - | (0.1) |
| | 0.4 | - | - | 0.4 |
| Purchased goodwill | | | | 1.0 |
| Total cost of acquisition, including expenses, satisfied by cash | | | | 1.4 |

| | £m |
|---|-----|
| Net outflow of cash in respect of acquisitions | |
| Total cost of acquisitions including expenses | 1.4 |
| Net cash acquired | - |
| Total outflow of cash from Group | 1.4 |

The results of Multiblitz were included in the Photographic division and comprise:

| | £m |
|-------------------------|-------|
| Turnover | 3.5 |
| Cost of sales | (2.4) |
| Operating expenses | (1.0) |
| Operating profit | 0.1 |

Notes to the Consolidated Accounts continued

27 Operating Leases

| Gross leasing commitments | Land and buildings £m | Other £m | Total 2005 £m | 2004 ⁽¹⁾ £m |
|---------------------------|--------------------------|-------------|---------------------|---------------------------|
| Within one year | 0.5 | 0.1 | 0.6 | 1.3 |
| Between two to five years | 3.7 | 0.9 | 4.6 | 5.3 |
| More than five years | 9.5 | - | 9.5 | 8.4 |
| | 13.7 | 1.0 | 14.7 | 15.0 |

⁽¹⁾ Leasing commitments at 31 December 2004 comprised £14.5 million of land and buildings and £0.4 million of other commitments.

| Leasing income | Land and buildings £m | Other £m | Total 2005 £m | 2004 £m |
|---------------------------|--------------------------|-------------|---------------------|------------|
| Within one year | - | - | - | - |
| Between two to five years | - | 0.5 | 0.5 | 0.1 |
| More than five years | - | - | - | - |
| | - | 0.5 | 0.5 | 0.1 |

The Group leases a number of office, warehouse and factory facilities under operating leases. None of the leases include contingent rentals.

One of the leased properties has been sublet by the Group. The lease expires in December 2015 and sublease expires in July 2006.

During the year ended 31 December 2005, £3.4 million (2004: £3.6 million) was recognised as an expense in respect of operating leases and £0.2 million (2004: £0.1 million) was recognised as income in respect of subleases in the income statement.

28 Employee Benefits

28a Share-based Payments

Group employees participate in a number of employee incentive schemes including a Sharesave Plan, an Unapproved Share Option Plan, a Long Term Incentive Plan and a Deferred Bonus Plan. The recognition and measurement principles in IFRS2 have not been applied to awards granted before 7 November 2002 in accordance with the transitional provisions in IFRS1 and IFRS2.

Share option plans

The share option plans operated by the group are:

2002 Sharesave Scheme and International Sharesave Plan (SAYE)

This is a share option plan. Employees elect on application to save a fixed amount each month in return for which they receive an option over a number of shares that is related to the amount of such savings. The savings period is three, five or seven years. At the maturity date, the participants have the choice to use their savings to purchase shares at a discount to the share price (the discount being determined at the date of grant) or to obtain a refund of savings. The option expires six months after maturity. Awards are settled with shares.

2002 Unapproved Share Option Plan (USOP)

The USOP is a share option plan. Exercise of an option is subject to growth in the Company's earnings per share, excluding exceptional or extraordinary items, exceeding by not less than 2% per annum the growth in the retail prices index over a 3-year performance period. Options are exercisable between the third and the tenth anniversaries of their dates of grant. Awards are settled with shares.

If the percentage growth in the earnings per share of the Company, after adjustments for exceptional or extraordinary items, exceeds the percentage growth in the retail prices index over the three year performance period by 2% per annum (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 4% per annum 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. Awards are settled with shares.

Options outstanding under the 2002 Sharesave Scheme and International Sharesave Plan and the 2002 Unapproved Share Option Plan as at 31 December 2005, together with their weighted average exercise prices and weighted average remaining contractual life, are as follows:

| Range of exercise prices £ | Number outstanding | Weighted average exercise price £ | Weighted average remaining contractual life (years) |
|-------------------------------|--------------------|--------------------------------------|--|
| 2.21 to 2.40 | 126,813 | 2.31 | 2.1 |
| 2.41 to 2.60 | 177,217 | 2.58 | 7.2 |
| 2.61 to 2.80 | 297,224 | 2.69 | 2.0 |
| 2.81 to 3.00 | 456,339 | 2.98 | 8.5 |
| 3.41 to 3.60 | 414,857 | 3.55 | 7.7 |
| 4.01 to 4.20 | 45,017 | 4.12 | 0.4 |
| 4.81 to 5.00 | 596 | 4.92 | 0.9 |
| 5.01 to 5.20 | 140,138 | 5.10 | 5.3 |
| 5.21 to 5.40 | 16,796 | 5.40 | 2.7 |
| 5.41 to 5.60 | 238,249 | 5.49 | 4.8 |
| 5.61 to 5.80 | 19,100 | 5.76 | 3.4 |
| 5.81 to 6.00 | 2,227 | 5.95 | - |
| 6.21 to 6.40 | 11,000 | 6.25 | 1.4 |
| 6.41 to 6.60 | 4,594 | 6.53 | 2.3 |
| Total | 1,950,167 | 3.54 | 5.8 |

Options granted, exercised and lapsed during the years ended 31 December 2005 and 2004 under these share option plans were as follows:

| | SAYE | Weighted average exercise price £ | USOP | Weighted average exercise price £ |
|----------------------------|---------|--------------------------------------|-----------|--------------------------------------|
| Awards at 31 December 2003 | 603,346 | 2.99 | 1,448,675 | 4.73 |
| Exercised | 12,072 | 2.64 | - | - |
| Lapsed | 106,329 | 3.25 | 459,281 | 5.14 |
| Expired | - | - | - | - |
| Granted | 67,646 | 2.83 | 333,000 | 3.51 |
| Awards at 31 December 2004 | 552,591 | 2.92 | 1,322,394 | 4.28 |
| Exercised | 5,614 | 2.51 | - | - |
| Lapsed | 52,007 | 3.06 | 264,443 | 4.43 |
| Expired | 35,696 | 4.92 | - | - |
| Granted | 74,303 | 2.73 | 358,639 | 3.00 |
| Awards at 31 December 2005 | 533,577 | 2.75 | 1,416,590 | 3.84 |

The weighted average share price at the date of exercise for share options exercised during the year was £3.31 (2004: £3.44).

Notes to the Consolidated Accounts continued

28 Employee Benefits

28a Share-based Payments continued

Share award plans

Long Term Incentive Plan (LTIP)

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.

The performance condition attaching to awards under the plan relates 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 three years must be not less than the increase in the retail prices index plus 36%. 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 this level. Where growth is between 9% and 36% above RPI awards are realisable on a straight-line basis. Awards are settled with shares.

2005 Long Term Incentive Plan (2005 LTIP)

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 Vitec's total shareholder return (TSR) over a period of three years, relative to a comparator group of other companies.

If Vitec's TSR performance is at the median of the comparator group, 35% of an award may vest. The full award may vest if Vitec's TSR performance is in the top 20% of the comparator group. There is pro-rata straight line vesting between these two points. The Remuneration Committee will also consider the underlying financial performance of the Company before it confirms vesting. Awards are settled with shares.

Deferred Bonus Plan (DBP)

Under the plan, an eligible executive may defer between 10% and 50% of his or her cash bonus in exchange for receiving a basic award over shares in the Company with a value equivalent, at the date of award, to the amount of the deferred bonus. A basic award may, in normal circumstances, be exercised by a participant after two years. However, if exercise is deferred until after three years and the executive remains employed by the Group, the participant is entitled to receive a matching award of additional shares equal in number to those comprised in the basic award. Shares comprising basic awards are purchased in the market and held in trust by Mourant & Co Trustees Limited until exercise. Dividends are not paid on shares held in trust.

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. The matching award can be settled by cash with the consent of the Remuneration Committee although there has been no past practice of settling the awards in cash and the company does not intend to do so in the future. Therefore it is assumed that all awards will be settled with shares.

For share options and share awards granted during the year the following information is provided:

| Arrangement | 2002 UK and International Sharesave Plan 3 Year | 2002 UK and International Sharesave Plan 5 Year | 2002 UK and International Sharesave Plan 7 Year | 2002 Unapproved Share Option Plan | 2005 Long Term Incentive Plan | Deferred Bonus Plan |
|---|---|--|---|--|---|---|
| Nature of Arrangement | SAYE | SAYE | SAYE | USOP | Share award plan | Share award plan |
| Date of Grant (2005) | 29 April | 29 April | 29 April | 2 June | 2 June | 30 June |
| Number of instruments granted | 23,603 | 49,391 | 1,309 | 358,639 | 557,090 | 35,100 Basic 58,341 Matching |
| Exercise Price | £2.73 | £2.73 | £3.31 | £3.00 | n/a | n/a |
| Share price at date of grant | £3.31 | £3.31 | £3.31 | £3.00 | £3.00 | £3.00 |
| Contractual Life (years) | 3.5 | 5.5 | 7.5 | 10 | 3 | 3 |
| Vesting conditions | Three year service period and savings requirement | Five year service period and savings requirement | Seven year service period and savings requirement | EPS growth relative to RPI and three year service period | Relative TSR performance against comparator group and three year service period | Exchange of cash bonus for shares and three year service period |
| Settlement | Shares | Shares | Shares | Shares | Shares | Shares |
| Expected volatility ⁽¹⁾ | 25.6% | 26.3% | 24.8% | 25.3% | 25.2% | n/a |
| Expected option life at grant date (years) | 3.25 | 5.25 | 7.25 | 3.5 | n/a | n/a |
| Risk free interest rate | 4.2% | 4.2% | 4.2% | 4.2% | 4.2% | n/a |
| Expected dividend (dividend yield) | 5.17% | 5.17% | 5.17% | 5.17% | 5.17% | 5.17% |
| Expected departures (per annum from grant date) | 5% | 5% | 5% | 5% | 5% | 0% |
| Expected outcome of meeting non market-related performance criteria (at the grant date) | n/a | n/a | n/a | 100% | n/a | n/a |
| Fair value per granted instrument determined at the grant date | £0.73 | £0.76 | £0.73 | £0.44 | £1.50 | £2.75 |
| Valuation model | Black Scholes | Black Scholes | Black Scholes | Black Scholes | Monte Carlo ⁽²⁾ | Black Scholes |

⁽¹⁾ The expected volatility is based on historical volatility determined by the analysis of daily share price over a period commensurate with the expected lifetime of the award and ending on the date of grant of the award.

⁽²⁾ For the LTIP 2005, a Monte Carlo valuation methodology has been used. Under this valuation method, the share price for Vitec is projected to the end of the performance period as is the Total Shareholder Return for Vitec and the companies in the comparator group. Based on these projections, the number of awards that will vest is determined and then we can calculate the present value of this outcome. Thousands of simulations are run and the fair value of the award is calculated as the average present value of these outcomes.

Notes to the Consolidated Accounts continued

28 Employee Benefits

28a Share-based Payments continued

The amounts recognised in the income statement for share-based payment transactions with employees for the year ended 31 December 2005 was £328,000 (2004: £93,000), of this £300,000 (2004: £141,000) related to equity-settled share-based payment transactions.

The liability recognised in the balance sheet for cash-settled awards as at 31 December 2005 was £29,000.

The total intrinsic value as at 31 December 2005 for cash-settled awards which had vested by this date was £37,000.

28b Post-employment Obligations

Defined benefit plans - pensions and other post-retirement plan disclosures

Amounts recognised on the Group balance sheet

| | 2005 £m | 2004 £m |
|--|---------------|---------------|
| Plan assets | | |
| Equities | 27.3 | 21.3 |
| Bonds | 9.2 | 7.4 |
| Other | 2.4 | 2.0 |
| Total fair value of plan assets | 38.9 | 30.7 |
| Present value of defined benefit obligation | (46.4) | (40.4) |
| Net (deficit) recognised in the Group balance sheet | (7.5) | (9.7) |
| Analysis of net recognised deficit | | |
| UK pension fund | (3.1) | (5.8) |
| Total funded plans | (3.1) | (5.8) |
| Italian pension scheme | (3.2) | (2.9) |
| Other unfunded plans | (1.2) | (1.0) |
| Total unfunded plans | (4.4) | (3.9) |
| Liability recognised in the Group balance sheet | (7.5) | (9.7) |

Amounts recognised in the Group income statement

| | 2005 £m | 2004 £m |
|---|------------|------------|
| Amounts in net operating costs | | |
| Current service costs - defined benefit schemes | 2.2 | 2.1 |
| Employers' pension costs - defined contribution schemes | 0.4 | 0.3 |
| | 2.6 | 2.4 |
| Amounts in net finance expense | | |
| Expected return on plan assets | (2.2) | (1.4) |
| Interest cost | 2.0 | 1.1 |
| | (0.2) | (0.3) |
| Total amounts charged to the income statement | 2.4 | 2.1 |

UK Pension Scheme

The nature of the scheme is a funded final salary scheme, closed to new entrants.

i) Assumptions used to determine defined benefit obligation

| | 31 December 2005 % pa | 31 December 2004 % pa | 31 December 2003 % pa |
|--|-----------------------------|-----------------------------|-----------------------------|
| Inflation rate | 2.8 | 2.8 | 2.75 |
| Expected rate of salary increases ⁽¹⁾ | 4.8 | 4.8 | 4.75 |
| Rate of increase of pensions in payment ⁽²⁾ | 2.8 | 2.8 | 2.75 |
| Rate of increase for deferred pensions | 2.8 | 2.8 | 2.75 |
| Discount rate | 4.8 | 5.3 | 5.40 |

⁽¹⁾ These exclude an age-related allowance for promotional and merit awards.

⁽²⁾ In addition, an allowance has been made for the special pension increase guarantees applying to certain executive members of the scheme.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions are equivalent to expected longevity at age 65 for members in normal health approximately as follows:

- pensioners currently aged 65: ranging from 19 years to 22 years
- non-pensioners currently aged 45: ranging from 21 years to 24 years

ii) Scheme assets and expected rate of return

A summary of the assets of the scheme, classified into the major asset classes, is shown below, together with the expected return on each major asset class.

| | Expected long-term rate of | | Expected long-term rate of | | Expected long-term rate of | |
|------------------------------|---|---------------------------------------|---|---------------------------------------|---|---------------------------------------|
| | Fair value at 31 December 2005 £m | return at 31 December 2005 % pa | Fair value at 31 December 2004 £m | return at 31 December 2004 % pa | Fair value at 31 December 2003 £m | return at 31 December 2003 % pa |
| Equities | 27.3 | 7.8 | 21.3 | 7.9 | 19.1 | 8.2 |
| Bonds | 9.2 | 4.3 | 7.4 | 4.8 | 6.5 | 5.0 |
| Property | 1.2 | 6.3 | 1.4 | 6.8 | 1.2 | 7.1 |
| Cash/net current assets | 0.6 | 3.8 | - | 3.8 | 0.3 | 3.8 |
| Insurance policies | 0.6 | 4.8 | 0.6 | 5.3 | 0.5 | 5.4 |
| Total value of assets | 38.9 | | 30.7 | | 27.6 | |

The asset values shown are, where relevant, estimated bid values of market securities.

iii) Reconciliation of funded status at 31 December 2005

| | 31 December 2005 £m | 31 December 2004 £m |
|---|---------------------------|---------------------------|
| Present value of defined benefit obligation | (42.0) | (36.5) |
| Assets at fair value | 38.9 | 30.7 |
| Funded status | (3.1) | (5.8) |
| Unrecognised past service cost | - | - |
| Unrecognised net gain (loss) | - | - |
| Effect of asset ceiling | - | - |
| Defined benefit liability | (3.1) | (5.8) |

Notes to the Consolidated Accounts continued

28 Employee Benefits

28b Post-employment Obligations continued

iv) Pension expense for year to 31 December 2005

a) Components of pension expense

| | Year ending 31 December 2005 £m | Year ending 31 December 2004 £m |
|------------------------------|--|--|
| Group service cost | 1.5 | 1.7 |
| Interest cost | 1.9 | 1.7 |
| Expected return on assets | (2.2) | (2.1) |
| Total pension expense | 1.2 | 1.3 |

b) Statement of Recognised Income and Expense (SORIE)

| | Year ending 31 December 2005 £m | Year ending 31 December 2004 £m |
|---|--|--|
| Actuarial gain/(loss) recognised in SORIE during the period | 0.5 | (0.3) |

v) Return on assets for year to 31 December 2005

| | Year ending 31 December 2005 £m | Year ending 31 December 2004 £m |
|--------------------------------|--|--|
| Expected return on assets | 2.2 | 2.1 |
| Actuarial gain on assets | 4.0 | 1.0 |
| Actual return on assets | 6.2 | 3.1 |

vi) Reconciliation of present value of defined benefit obligation (DBO) for the year to 31 December 2005

| | Year ending 31 December 2005 £m | Year ending 31 December 2004 £m |
|--|--|--|
| Present value of DBO at start of year | 36.5 | 32.8 |
| Group service cost | 1.5 | 1.7 |
| Interest cost | 1.9 | 1.7 |
| Employee contributions | 0.4 | 0.3 |
| Actuarial gain on change of assumptions | 3.6 | 2.3 |
| Experience loss | (0.1) | (1.0) |
| Actual benefit payments and expenses | (1.8) | (1.3) |
| Present value of DBO at end of year | 42.0 | 36.5 |

vii) Reconciliation of the fair value of assets for the year to 31 December 2005

| | 31 December 2005 £m | 31 December 2004 £m |
|--|---------------------------|---------------------------|
| Fair value of assets at start of year | 30.7 | 27.6 |
| Expected return on assets | 2.2 | 2.1 |
| Actuarial gain on plan assets | 4.0 | 1.0 |
| Group contributions | 3.4 | 1.0 |
| Employee contributions | 0.4 | 0.3 |
| Actual benefit payments | (1.5) | (1.1) |
| Administration expenses paid | (0.3) | (0.2) |
| Fair value of assets at end of year | 38.9 | 30.7 |

viii) Reconciliation of change in funded status for the year to 31 December 2005

| | Year to 31 December 2005 £m | Year to 31 December 2004 £m |
|---|--------------------------------------|--------------------------------------|
| Defined benefit liability at start of year | (5.8) | (5.2) |
| Total pension expense | (1.2) | (1.3) |
| Employer contributions actually paid | 3.4 | 1.0 |
| Gain (loss) recognised in SORIE | 0.5 | (0.3) |
| Defined benefit liability at end of year | (3.1) | (5.8) |

ix) Expected 2006 contributions

| | Year commencing 1 January 2006 £m |
|------------------------|---|
| Group contributions | 1.0 |
| Employee contributions | 0.4 |

Italian pension scheme

In accordance with Italian law, Italian employees are entitled to a lump sum payment (TFR) from their employers when they resign or retire.

The TFR is accrued over the years in which the employee is in service. In each year, the accrued amount is increased by 6.91% of the employee's gross annual salary. At the end of each year, the employee's TFR's are revalued by 1.5% plus 75% of the national increase in the consumer price index (as published by the Italian National Statistical Institute ISTAT).

After eight years of service, an employee can ask his employer to advance up to 70% of his total TFR. Once the employee has left the company and received the balance of his TSR, the company is not liable for any further pension obligations in respect of that employee.

The International Financial Reporting Interpretations Committee (IFRIC) of IASB (International Accounting Standard Bureau) has established that, in accordance with IAS 19, TFR's must be accounted for as defined benefit pension schemes and the present value of the TFR's must be computed using actuarial assumptions.

Assumptions used to determine defined benefit obligation

| | 31 December 2005 %pa | 31 December 2004 %pa |
|---|----------------------------|----------------------------|
| Inflation rate | 2% | 2% |
| Expected rate of salary increases | 2% | 2% |
| Expected rate of salary increase on promotion to a higher level | 10.54% | 10.54% |
| Discount rate (25 years) | 4.33% | 4.33% |

Pension expense for the year to 31 December 2005

| | Year ending 31 December 2005 £m | Year ending 31 December 2004 £m |
|------------------------------|--|--|
| Group service cost | 0.5 | 0.2 |
| Interest cost | 0.1 | 0.1 |
| Total pension expense | 0.6 | 0.3 |

Notes to the Consolidated Accounts continued

28 Employee Benefits

28b Post-employment Obligations continued

| Statement of Recognised Income and Expense (SORIE) | Year ending 31 December 2005 £m | Year ending 31 December 2004 £m |
|---|--|--|
| Actuarial gain/(loss) recognised in SORIE during the period | - | (0.2) |

Reconciliation of present value of defined benefit obligation (DBO) for the year to 31 December 2005

| | Year ending 31 December 2005 £m | Year ending 31 December 2004 £m |
|--|--|--|
| Present value of DBO at start of year | (2.9) | (2.8) |
| Group service cost | (0.5) | (0.2) |
| Interest cost | (0.1) | (0.1) |
| Actuarial loss | - | (0.2) |
| Contributions paid | 0.3 | 0.4 |
| Present value of DBO at end of year | (3.2) | (2.9) |

29 Post Balance Sheet Events

On 15 January 2006 the Group completed the acquisition of Petrol for £1.6 million. Petrol, which is based in Tel Aviv, is a broadcast equipment bag manufacturer and comprises design of broadcast video bags and accessories, together with third party sourcing and assembly operations in China.

The Group has not yet had sufficient time to fully assess the impact of the acquisition in accordance with IFRS. The Group will provide the full IFRS-compliant disclosures relating to this acquisition as part of the 2006 Annual Report and Accounts.

30 Accounting Estimates and Judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Note 14 contains information about the assumptions and their risk factors relating to goodwill impairment. In Note 19 detailed analysis is given of the foreign exchange exposure of the Group and risks in relation to foreign exchange movements.

Provisions for bad debts

The carrying amount of receivables at the year end was £32.1 million. The provision for bad debt as at 1 January 2005 was £1.6 million (2004: £1.1 million). During the year, £0.4 million (2004: £0.3 million) of this provision was utilised to write off bad debts and the provision was increased by £0.3 million (2004: £0.8 million) as part of the normal trade receivable ageing assessments, with the charge going to 'administrative costs' in the income statement. The trade receivables impairment provision as at 31 December 2005 was therefore £1.5 million (2004: £1.6 million). Management are confident that this provision is adequate to cover the risk of bad debts.

Provisions for inventory obsolescence

The carrying amount of inventory at the year end was £37.6 million. The provision for inventory obsolescence as at 1 January 2005 was £6.3 million (2004: £4.4 million). During the year, £0.9 million (2004: £0.6 million) of this prior year provision was utilised to scrap obsolete inventory and the provision was increased by £0.7 million (2004: £2.7 million) as part of normal inventory ageing assessments, with the charge going to 'cost of sales' in the income statement. As a result of currency movements of £0.2 million (2004: £0.2 million), the provision for inventory obsolescence as at 31 December 2005 was £6.3 million (2004: £6.3 million). Management are confident that this provision is adequate to cover the risk of inventory obsolescence.

Warranty Provisions

Included within provisions is an amount of £1.0 million for warranty provisions. Management are confident that these provisions are adequate to cover the risk of warranty claims against the Group.

Post-employment obligations

A number of accounting estimates and judgements are incorporated within the provisions for post-employment obligations. These are described in more detail in Note 28.

Share-based payments

A number of accounting estimates and judgements are incorporated within the provisions for share based payments. These are described in more detail in Note 28.

Intangible assets

A number of accounting estimates and judgements are incorporated within the valuations of intangible assets. These are described in more detail in Note 14.

31 Related Party Transactions

Identity of related parties

The Group has a related party relationship with its subsidiaries (these are listed in Note 15 on page 56) and with its key management personnel.

Transactions with key management personnel

Lino Manfrotto, a director of Feltre Stampi, a subsidiary of Gruppo Manfrotto Srl, 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. Rents paid to Mancor in 2005 totalled €212,958, £145,702 (2004: €210,027, £142,985). At 31 December 2005, there were no outstanding amounts payable to Mancor (2004: Nil).

Abramo Manfrotto is a non-executive director of Gruppo Manfrotto Srl. He is also sole administrator of Antide Srl, a company specialising in world-wide web sites and e-mail services. Group companies paid Antide a total of €45,081, £30,844 during the year (2004: €60,950, £41,468) for products and services. At 31 December 2005, there was €8,653, £5,920 outstanding and payable to Antide Srl.

Abramo Manfrotto is also Managing Director of ALU Spa (disposed of by the Group in December 2003). Sales of Gruppo Manfrotto products and services to ALU in 2005 totalled €1,144,460, £783,019 (2004: €3,902,994, £2,655,459). At 31 December 2005, there was €863,782, £590,984 outstanding, payable by ALU Spa (2004: €151,111, £102,811). Sales of ALU products and services to Gruppo Manfrotto companies in 2005 totalled €72,198, £49,397 (2004: €82,202, £55,927). At 31 December 2005, there was €2,430, £1,663 outstanding and payable to ALU Spa (2004: €10,291, £7,002).

Key management personnel are classed as the Directors (including the Non-executive Directors) and the members of the Executive Board. The Chief Executive, Gareth Rhys Williams, and the Finance Director, Alastair Hewgill, are Directors of the Company and are also members of the Executive Board. However, for the purposes of this section, their interests and remuneration have been excluded from the information relating to the Executive Board to avoid double counting.

Directors of the Company and their immediate relatives control 0.165% of the shares of the Company. Members of the Executive Board own or control 0.058% of the shares of the Company.

In addition to their salaries, the aggregate of which is set out below, the Group also contributes to a number of pension arrangements, each one specific to the country in which the individual member of the Executive Board is based. Members of the Executive Board are eligible to participate in the Group's executive bonus scheme and its share incentive arrangements. The cost to the Company arising from share incentive exercises in 2005 was £nil (2004: £16,450).

The remuneration of the Directors is set out on pages 18 to 24. The aggregate salaries of the members of the Executive Board (excluding the Directors) in 2005 was £706,091 (2004: £557,406). Short-term employee benefits paid in 2005 were £2,446 (2004: £2,573).

32 Explanation of Transition to IFRSs

As stated in Note 1a, these are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the Consolidated Accounts continued

32 Explanation of Transition to IFRSs continued

| Balance sheets | UK GAAP | IFRS | IFRS | UK GAAP | IFRS | IFRS |
|--------------------------------|----------------|-------------------|--------------|------------------|-------------------|--------------|
| | £m | Adjustments £m | £m | £m | Adjustments £m | £m |
| | 1 January 2004 | | | 31 December 2004 | | |
| Assets | | | | | | |
| Non-current assets | | | | | | |
| Property, plant and equipment | 34.5 | - | 34.5 | 33.9 | (3.2) | 30.7 |
| Intangible assets | 10.1 | (0.4) | 9.7 | 8.2 | 4.6 | 12.8 |
| Deferred tax assets | | 5.9 | 5.9 | | 7.2 | 7.2 |
| | 44.6 | 5.5 | 50.1 | 42.1 | 8.6 | 50.7 |
| Current assets | | | | | | |
| Inventories | 33.2 | - | 33.2 | 32.6 | - | 32.6 |
| Trade and other receivables | 42.2 | (1.5) | 40.7 | 38.5 | (3.5) | 35.0 |
| Current tax assets | | - | - | | 2.3 | 2.3 |
| Cash at bank and in hand | 15.6 | - | 15.6 | 14.4 | (14.4) | - |
| Cash and cash equivalents | | - | - | | 14.4 | 14.4 |
| | 91.0 | (1.5) | 89.5 | 85.5 | (1.2) | 84.3 |
| Total assets | 135.6 | 4.0 | 139.6 | 127.6 | 7.4 | 135.0 |
| Liabilities | | | | | | |
| Current liabilities | | | | | | |
| Bank overdrafts | - | - | - | 1.0 | - | 1.0 |
| Bank loans | - | - | - | 24.7 | - | 24.7 |
| Trade and other payables | 37.3 | (6.8) | 30.5 | 33.7 | (6.3) | 27.4 |
| Current tax liabilities | | - | - | | 2.6 | 2.6 |
| Provisions | | - | - | | 2.7 | 2.7 |
| | 37.3 | (6.8) | 30.5 | 59.4 | (1.0) | 58.4 |
| Non-current liabilities | | | | | | |
| Bank loans | 26.0 | - | 26.0 | - | - | - |
| Other payables | 0.1 | - | 0.1 | 0.1 | - | 0.1 |
| Post-employment obligations | 4.4 | 4.6 | 9.0 | 4.4 | 5.3 | 9.7 |
| Provisions | 8.0 | - | 8.0 | 7.0 | (6.8) | 0.2 |
| Deferred tax liabilities | | (4.1) | (4.1) | | 2.4 | 2.4 |
| | 38.5 | 0.5 | 39.0 | 11.5 | 0.9 | 12.4 |
| Total liabilities | 75.8 | (6.3) | 69.5 | 70.9 | (0.1) | 70.8 |
| Net assets | 59.8 | 10.3 | 70.1 | 56.7 | 7.5 | 64.2 |
| Equity | | | | | | |
| Share capital | 8.2 | - | 8.2 | 8.2 | - | 8.2 |
| Share premium | 2.6 | - | 2.6 | 2.7 | - | 2.7 |
| Revaluation reserve | 1.5 | (1.5) | - | 1.4 | (1.4) | - |
| Translation reserves | | - | - | | (4.0) | (4.0) |
| Other reserves | 1.6 | - | 1.6 | 1.6 | - | 1.6 |
| Retained earnings | 45.9 | 11.8 | 57.7 | 42.8 | 12.9 | 55.7 |
| Total equity | 59.8 | 10.3 | 70.1 | 56.7 | 7.5 | 64.2 |

Shaded areas represent the disclosure of certain line items that are not applicable under the relevant GAAP.

Analysis of IFRS adjustments to the Balance Sheet at 31 December 2004

| | Additional IFRS adjustments | | | | | | | | | | | |
|--------------------------------|-----------------------------|----------------------------|-----------------------------|------------------------------|-------------------------------|---------------------|---------------|-----------------------------|--|-----------------------------|-----------------------------|------------------------------|
| | Employee benefits (1) £m | Foreign exchange (3) £m | Development costs (4) £m | Positive Goodwill (5i) £m | Negative Goodwill (5ii) £m | Dividends (6) £m | Tax (7) £m | Reclassifications (8) £m | Total IFRS adjustments as reported £m | Employee benefits (1) £m | Reclassifications (8) £m | Total IFRS adjustments £m |
| Assets | | | | | | | | | | | | |
| Non-current assets | | | | | | | | | | | | |
| Property, plant and eqpt | - | - | - | - | - | - | - | (3.2) | (3.2) | - | - | (3.2) |
| Intangible assets | - | - | (0.3) | 1.3 | 0.4 | - | - | 3.2 | 4.6 | - | - | 4.6 |
| Deferred tax assets | - | - | - | - | - | - | 3.4 | 3.8 | 7.2 | - | - | 7.2 |
| | - | - | (0.3) | 1.3 | 0.4 | - | 3.4 | 3.8 | 8.6 | - | - | 8.6 |
| Current assets | | | | | | | | | | | | |
| Inventories | - | - | - | - | - | - | - | - | - | - | - | - |
| Trade and other receivables | (1.0) | - | - | - | - | - | - | (2.3) | (3.3) | (0.2) | - | (3.5) |
| Current tax assets | - | - | - | - | - | - | - | 2.3 | 2.3 | - | - | 2.3 |
| Cash at bank and in hand | - | - | - | - | - | - | - | (14.4) | (14.4) | - | - | (14.4) |
| Cash and cash equivalents | - | - | - | - | - | - | - | 14.4 | 14.4 | - | - | 14.4 |
| | (1.0) | - | - | - | - | - | - | - | (1.0) | (0.2) | - | (1.2) |
| Total assets | (1.0) | - | (0.3) | 1.3 | 0.4 | - | 3.4 | 3.8 | 7.6 | (0.2) | - | 7.4 |
| Liabilities | | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | | |
| Bank overdrafts | - | - | - | - | - | - | - | - | - | - | - | - |
| Bank loans | - | - | - | - | - | - | - | - | - | - | - | - |
| Trade and other payables | - | - | - | - | - | (3.7) | - | (2.6) | (6.3) | - | - | (6.3) |
| Current tax liabilities | - | - | - | - | - | - | - | 2.6 | 2.6 | - | - | 2.6 |
| Provisions | - | - | - | - | - | - | - | 3.4 | 3.4 | - | (0.7) | 2.7 |
| | - | - | - | - | - | (3.7) | - | 3.4 | (0.3) | - | (0.7) | (1.0) |
| Non-current liabilities | | | | | | | | | | | | |
| Bank loans | - | - | - | - | - | - | - | - | - | - | - | - |
| Other payables | - | - | - | - | - | - | - | - | - | - | - | - |
| Post-employment obligations | 5.5 | - | - | - | - | - | - | - | 5.5 | (0.2) | - | 5.3 |
| Provisions | - | - | - | - | - | - | - | (7.5) | (7.5) | - | 0.7 | (6.8) |
| Deferred tax liabilities | - | - | - | - | - | - | (5.5) | 7.9 | 2.4 | - | - | 2.4 |
| | 5.5 | - | - | - | - | - | (5.5) | 0.4 | 0.4 | (0.2) | 0.7 | 0.9 |
| Total liabilities | 5.5 | - | - | - | - | (3.7) | (5.5) | 3.8 | 0.1 | (0.2) | - | (0.1) |
| Net assets | (6.5) | - | (0.3) | 1.3 | 0.4 | 3.7 | 8.9 | - | 7.5 | - | - | 7.5 |
| Equity | | | | | | | | | | | | |
| Share capital | - | - | - | - | - | - | - | - | - | - | - | - |
| Share premium | - | - | - | - | - | - | - | - | - | - | - | - |
| Revaluation reserve | - | - | - | - | - | - | - | - | - | - | (1.4) | (1.4) |
| Translation reserves | - | 0.1 | - | - | (0.1) | - | (0.5) | (3.5) | (4.0) | - | - | (4.0) |
| Other reserves | - | - | - | - | - | - | - | - | - | - | - | - |
| Retained earnings | (6.5) | (0.1) | (0.3) | 1.3 | 0.5 | 3.7 | 9.4 | 3.5 | 11.5 | - | 1.4 | 12.9 |
| Total equity | (6.5) | - | (0.3) | 1.3 | 0.4 | 3.7 | 8.9 | - | 7.5 | - | - | 7.5 |

Notes to the Consolidated Accounts continued

32 Explanation of Transition to IFRSs continued

Analysis of IFRS adjustments to the Balance Sheet at 31 December 2003

| | Note: | Employee benefits (1) £m | Development costs (4) £m | Negative Goodwill (5ii) £m | Dividends (6) £m | Tax (7) £m | Total IFRS adjustments as reported (8) £m | Reclassifications (8) £m | Total IFRS adjustments (8) £m | Additional IFRS adjustments |
|--------------------------------|-------|-----------------------------|-----------------------------|-------------------------------|---------------------|---------------|--|-----------------------------|----------------------------------|-----------------------------|
| Assets | | | | | | | | | | |
| Non-current assets | | | | | | | | | | |
| Property, plant and eqpt | | - | - | - | - | - | - | - | - | - |
| Intangible assets | | - | (0.5) | 0.1 | - | - | (0.4) | - | (0.4) | - |
| Deferred tax assets | | - | - | - | - | 5.9 | 5.9 | - | 5.9 | - |
| | | - | (0.5) | 0.1 | - | 5.9 | 5.5 | - | 5.5 | - |
| Current assets | | | | | | | | | | |
| Inventories | | - | - | - | - | - | - | - | - | - |
| Trade and other receivables | | (1.5) | - | - | - | - | (1.5) | - | (1.5) | - |
| Current tax assets | | - | - | - | - | - | - | - | - | - |
| Cash at bank and in hand | | - | - | - | - | - | - | - | - | - |
| Cash and cash equivalents | | - | - | - | - | - | - | - | - | - |
| | | (1.5) | - | - | - | - | (1.5) | - | (1.5) | - |
| Total assets | | (1.5) | (0.5) | 0.1 | - | 5.9 | 4.0 | - | 4.0 | - |
| Liabilities | | | | | | | | | | |
| Current liabilities | | | | | | | | | | |
| Bank overdrafts | | - | - | - | - | - | - | - | - | - |
| Bank loans | | - | - | - | - | - | - | - | - | - |
| Trade and other payables | | - | - | - | (6.8) | - | (6.8) | - | (6.8) | - |
| Current tax liabilities | | - | - | - | - | - | - | - | - | - |
| Provisions | | - | - | - | - | - | - | - | - | - |
| | | - | - | - | (6.8) | - | (6.8) | - | (6.8) | - |
| Non-current liabilities | | | | | | | | | | |
| Bank loans | | - | - | - | - | - | - | - | - | - |
| Other payables | | - | - | - | - | - | - | - | - | - |
| Post-employment obligations | | 4.6 | - | - | - | - | 4.6 | - | 4.6 | - |
| Provisions | | - | - | - | - | - | - | - | - | - |
| Deferred tax liabilities | | - | - | - | - | (4.1) | (4.1) | - | (4.1) | - |
| | | 4.6 | - | - | - | (4.1) | 0.5 | - | 0.5 | - |
| Total liabilities | | 4.6 | - | - | (6.8) | (4.1) | (6.3) | - | (6.3) | - |
| Net assets | | (6.1) | (0.5) | 0.1 | 6.8 | 10.0 | 10.3 | - | 10.3 | - |
| Equity | | | | | | | | | | |
| Share capital | | - | - | - | - | - | - | - | - | - |
| Share premium | | - | - | - | - | - | - | - | - | - |
| Revaluation reserve | | - | - | - | - | - | - | (1.5) | (1.5) | - |
| Translation reserves | | - | - | - | - | - | - | - | - | - |
| Other reserves | | - | - | - | - | - | - | - | - | - |
| Retained earnings | | (6.1) | (0.5) | 0.1 | 6.8 | 10.0 | 10.3 | 1.5 | 11.8 | - |
| Total equity | | (6.1) | (0.5) | 0.1 | 6.8 | 10.0 | 10.3 | - | 10.3 | - |

Notes to the IFRS adjustments to the Balance Sheet on transition (1 January 2004) and at 31 December 2004

A summary of the principal differences between UK GAAP and IFRS are as follows:

1 Employee Benefits

Principal difference

Under UK GAAP, the liability/asset on the balance sheet represents the timing differences between the SSAP 24 charge and the payments made to the pension and post-retirement healthcare schemes. Under IFRS, the liability/asset on the balance sheet represents the deficit/surplus in respect of pension and post-retirement healthcare schemes, as determined in accordance with IAS19. This balance encompasses all assets/liabilities arising from defined benefit schemes.

Transition impact

UK

A post-retirement benefit liability of £5.2 million has been recognised at the transition date. The pension prepayment (within debtors) on the UK GAAP balance sheet of £0.8 million has also been reversed. The net effect before tax is a reduction in shareholders' funds of £6.0 million on transition.

ITALY

A post-retirement net benefit liability of £2.8 million remains unchanged at the transition date, and there is no net effect on shareholder funds.

GERMANY

The post-retirement net benefit liability on transition increases from £0.4 million to £0.5 million. The net effect before tax is a reduction in shareholders' funds of £0.1 million on transition.

Closing balance sheet impact

UK

Throughout the year all movements in the deficit on pension and post-retirement healthcare schemes are recognised against the liability. At the end of the year, the liability of £5.8 million reflects the closing deficit of the pension and post-retirement healthcare schemes. This has been adjusted to reflect the actuarial loss for the year of £0.3 million that has been recognised directly in reserves.

ITALY

Throughout the year all movements in the deficit on pension and post-retirement healthcare schemes are recognised against the liability. At the end of the year, the liability of £2.9 million reflects the closing deficit of the pension and post-retirement healthcare schemes. This has been adjusted to reflect the actuarial loss for the year of £0.2 million that has been recognised directly in reserves.

GERMANY

Throughout the year all movements in the deficit on the pension scheme is recognised against the liability. At the end of the year, the liability of £0.6 million reflects the closing deficit of the pension scheme. This has been adjusted to reflect the actuarial loss for the year of £0.1 million that has been recognised directly in reserves.

2 Share-based Payments

Principal difference

Under UK GAAP, a liability has been recognised for schemes where shares are awarded based on the intrinsic value of the awards. Under IFRS, the balance sheet entry is based on the fair value of all awards (awards of shares and options) and results in either a credit to liabilities for cash settled awards or a credit to equity for equity-settled awards. Substantially all the Group schemes are equity-settled.

Transition impact

The adoption of IFRS 2 is equity-neutral for equity-settled transactions.

A transitional adjustment of £0.1 million has been recognised in retained earnings, offset by the charge of £0.1 million to the income statement.

Closing balance sheet impact

The adoption of IFRS 2 is equity-neutral for equity-settled transactions.

The liability recognised in the equity share reserve has increased by £0.1 million, with a corresponding charge to the income statement.

3 Foreign Exchange

There is no effect on the balance sheet as a result of changes to the treatment of foreign exchange under IFRS. However, cumulative translation exchange losses of £0.1 million arising in the year have been reclassified from the profit and loss account reserve to a separate translation reserves at 31 December 2004.

Notes to the Consolidated Accounts continued

32 Explanation of Transition to IFRSs continued

Notes to the IFRS adjustments to the Balance Sheet on transition (1 January 2004) and at 31 December 2004 continued

4 Development Costs

Principal difference

IFRS introduces more objective and stringent criteria than UK GAAP for the recognition of costs that must be capitalised as development expenditure. The Group's policy to comply with IFRS is to capitalise costs incurred after the 'field evaluation' project development stage, but only if they exceed £150,000. Tooling costs are always capitalised. Development expenditure capitalised prior to the transition date in accordance with UK GAAP does not now meet the criteria for capitalisation under the Group's new policy, and has therefore been de-recognised and charged to the transition date retained earnings.

Transition impact

The unamortised development expenditure balance of £0.5 million has been reversed from fixed assets and charged to reserves.

Closing balance sheet impact

The 2004 UK GAAP amortisation of previously recognised development expenditure (the Drake Freespeak project) of £0.2 million has been reversed, resulting in a corresponding increase in reserves.

5 Goodwill

i) Positive goodwill

Principal difference

Under IFRS, goodwill is no longer amortised but frozen at the UK GAAP carrying value on transition and tested annually for impairment.

Closing balance sheet impact

The 2004 UK GAAP amortisation charge of £1.6 million has been reversed, and an impairment charge of £0.3 million was made in respect of goodwill that arose on the acquisition of Vega Holdings Inc. in 1999, resulting in an increase of £1.3 million in the net book value of goodwill.

ii) Negative goodwill

Principal difference

UK GAAP requires negative goodwill to be amortised over its expected useful economic life. Under IFRS, excess of the fair value of net identifiable assets over the cost of acquisition is not recognised and is credited to income immediately.

Transition impact

The amount of negative goodwill of £0.1 million has been released to reserves.

Closing balance sheet impact

The negative goodwill of £0.6 million which arose on the acquisition of Charter Broadcast America Inc in 2004 has been credited to income, whilst its amortisation write back of an amount of £0.2 million in the year under UK GAAP has been reversed, resulting in an increase of £0.4 million in the net book value of goodwill. Currency translation gain relating to these, of an amount of £0.1 million has also been reversed.

6 Dividends

Principal difference

Under UK GAAP, the practice is to recognise dividends in the period to which they relate, whereas under IFRS the dividend is recognised in the period in which it is declared. As a consequence of this, the dividend creditor is also not recognised until the dividend is declared. Therefore the dividend creditor recognised at each year-end needs to be adjusted accordingly.

Transition impact

As the 2003 interim dividend had been paid and the 2003 final proposed dividend had not been declared at 31 December 2003, there is no dividend creditor in the transition balance sheet. The opening UK GAAP dividend creditor of £6.8 million has been reversed.

Closing balance sheet impact

At the year-end, the 2004 interim dividend had been paid and the 2004 final proposed dividend not yet been declared. Therefore the closing dividend creditor of £3.7 million under UK GAAP has been reversed.

7 Tax

i) US goodwill

Principal difference

The Group has US goodwill with a tax basis that is significantly higher than the recognised accounting value. The future tax deductions for this US goodwill will generate significant reductions in the tax paid in the US. Under UK GAAP, the Group recognised a deferred tax liability, representing the difference between the tax benefit given and the potential accounting charge for goodwill. Under IFRS, the Group recognises a deferred tax asset, representing the difference between the tax and book values.

Transition Impact

An increase in deferred tax assets of £3.1 million and a reduction in deferred tax liabilities of £5.0 million have been recognised at the transition date.

Closing balance sheet impact

The year end value for deferred tax assets and liabilities is reduced by the charge to profit of £0.3 million and a reduction on the sterling value of the tax assets of £0.5 million.

ii) German Tax

Principal difference

The Group has a difference between its German tax assets and the book value of its assets that is not expected to reverse. Under UK GAAP the Group was not required to recognise a deferred tax asset for this difference. Under IFRS, the Group recognises a deferred tax asset, representing the difference between the tax and book values.

Transition Impact

A deferred tax asset of £1.6 million has been recognised at the transition date.

Closing balance sheet impact

The year end value for the deferred tax asset is reduced by the charge to profit of £0.2 million.

iii) Reversal of SSAP 24 pension prepayment

Transition Impact

As a result of the reversal of the SSAP 24 pension prepayment, deferred tax liabilities are reduced by £0.3 million.

8 Other Reclassifications

- i) IFRS replaces the term 'cash' with 'cash and cash equivalents', where cash equivalents are defined as short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value. They usually have a maturity date less than three months from acquisition. This has resulted in a reclassification of £14.4 million from 'Cash' to 'Cash and cash equivalents'.
- ii) IFRS states that provisions expected to be settled within one year of the balance sheet date should be classified as current liabilities, except for employee benefit assets and liabilities which can be all classified as non-current liabilities. This has resulted in a reclassification of £2.7 million from non-current liabilities to current liabilities.
- iii) IFRS requires computer software that is not an integral part of the hardware to be treated as an intangible asset. Under UK GAAP, Group policy was to categorise all capitalised software as tangible assets. This has resulted in a balance sheet reclassification of £3.2 million.
- iv) Under UK GAAP, the net deferred tax liability is shown within provisions. Under IFRS, the deferred tax asset and deferred tax liability are shown separately on the face of the balance sheet. This has resulted in an initial reclassification of £3.8 million to deferred tax assets and £7.9 million to deferred tax liabilities.
- v) Under UK GAAP, the current tax liability is shown within trade creditors and other payables on the face of the balance sheet. Under IFRS, the current tax liability is shown separately on the face of the balance sheet. This has resulted in £2.6 million being reclassified from trade creditors and other payables to current tax liability, and £2.3 million being reclassified from trade and other receivables to current tax asset.
- vi) Cumulative translation exchange losses of £3.5 million arising in the year have been reclassified within reserves from the profit and loss account reserve to the translation reserve as at 31 December 2004.
- vii) An amount of £1.5 million at 1 January 2004, and £1.4 million at 31 December 2004 has been reclassified from a revaluation reserve recognised under previous GAAP to retained earnings. The amount represents the balance on the revaluation reserve at 1 January 2004 in respect of land and buildings that are measured on the basis of deemed cost under IFRSs.
- viii) The net investment held in respect of grants under share option schemes of £0.5 million have been reclassified within reserves from retained earnings to Reserve for own shares.

Notes to the Consolidated Accounts continued

32 Explanation of Transition to IFRSs continued

Reconciliation of profit for 2004

| | UK GAAP | | | Total IFRS adjust- ments | IFRS | | | | | | Total £m |
|--|--|----------------------------|---|-----------------------------------|-------------|--------------------------------------|-----------------------------------|------------------------------|----------------------------|--------------|-------------|
| | Before exceptional items, goodwill amortisation & impairment £m | Exceptional items £m | Goodwill amortisation & impairment £m | | Total £m | Before significant items £m | Significant items | | | | |
| | | | | | | Financial expense £m | Re- structuring costs £m | Goodwill impairment £m | Negative goodwill £m | | |
| Revenue | | | | | | | | | | | |
| Continuing operations | 180.1 | | | 180.1 | - | | | | | | |
| Acquisitions | 5.3 | | | 5.3 | - | | | | | | |
| | 185.4 | | | 185.4 | - | 185.4 | | | | 185.4 | |
| Cost of sales | (108.9) | | | (108.9) | - | (108.9) | | | | (108.9) | |
| Gross profit | 76.5 | | | 76.5 | - | 76.5 | | | | 76.5 | |
| Other operating income | - | - | - | - | - | - | - | - | - | - | |
| Operating expenses | (58.7) | (2.1) | (1.8) | (62.6) | 1.7 | (58.7) | - | (2.1) | (0.7) | 0.6 | |
| Operating profit | | | | | | | | | | | |
| Continuing operations | 17.1 | (2.1) | (1.8) | 13.2 | 1.7 | 17.1 | - | (2.1) | (0.7) | 0.6 | |
| Acquisitions | 0.7 | - | - | 0.7 | - | 0.7 | - | - | - | - | |
| | 17.8 | (2.1) | (1.8) | 13.9 | 1.7 | 17.8 | - | (2.1) | (0.7) | 0.6 | |
| Interest payable on bank borrowings | (1.7) | | | (1.7) | - | (1.7) | | | | (1.7) | |
| Interest income | 0.1 | | | 0.1 | - | 0.1 | | | | 0.1 | |
| Pension scheme: | | | | | | | | | | | |
| Interest charge | - | | | - | (1.1) | (1.1) | | | | (1.1) | |
| Expected return on assets | - | | | - | 1.4 | 1.4 | | | | 1.4 | |
| Other financial expense | - | | | - | (0.1) | - | (0.1) | | | (0.1) | |
| Net financial expense | (1.6) | | | (1.6) | 0.2 | (1.3) | (0.1) | | | (1.4) | |
| Profit before tax | 16.2 | (2.1) | (1.8) | 12.3 | 1.9 | 16.5 | (0.1) | (2.1) | (0.7) | 0.6 | |
| Overseas tax | (6.8) | 0.9 | - | (5.9) | (0.6) | (7.4) | 0.9 | - | - | (6.5) | |
| Profit for the year (attributable to Equity Shareholders) | 9.4 | (1.2) | (1.8) | 6.4 | 1.3 | 9.1 | (0.1) | (1.2) | (0.7) | 0.6 | |
| Dividends | | | | (6.1) | 6.1 | | | | | | |
| Retained profit/(loss) for the year | | | | 0.3 | 7.4 | | | | | | |
| Earnings per share | | | | | | | | | | | |
| Basic earnings per share | | | | 15.6p | 3.2p | | | | | 18.8p | |
| Diluted earnings per share | | | | 15.5p | 3.2p | | | | | 18.7p | |

Shaded areas represent the disclosure of certain line items that are not applicable under the relevant GAAP.

Analysis of IFRS adjustments to the profit for 2004

| | | | | | | | | | | | Additional IFRS adjust- ments | |
|--|----------------------|----------------------------|------------|----------------------|--------------|---|---------------------|----------------------|----------------------|---|---|---------------------------|
| | Employee benefits | Share based payments | Dividends | Development costs | Tax | Adjustments before significant items & goodwill impairment | Foreign exchange | Positive Goodwill | Negative Goodwill | Total IFRS adjustments as reported | Employee benefits Germany (1iii) | Total IFRS adjustments |
| Note: | (1) | (2) | (4) | (5) | (6) | | (3) | (7i) | (7ii) | £m | £m | £m |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Revenue | | | | | | | | | | | | |
| Continuing operations | - | - | - | - | - | - | - | - | - | - | - | - |
| Acquisitions | - | - | - | - | - | - | - | - | - | - | - | - |
| Cost of sales | - | - | - | - | - | - | - | - | - | - | - | - |
| Gross profit | - | - | - | - | - | - | - | - | - | - | - | - |
| Other operating income | | | | | | | | | | | | |
| Operating expenses | (0.2) | (0.1) | - | 0.2 | - | (0.1) | - | 1.3 | 0.4 | 1.6 | 0.1 | 1.7 |
| Operating profit | | | | | | | | | | | | |
| Continuing operations | (0.2) | (0.1) | - | 0.2 | - | (0.1) | - | 1.3 | 0.4 | 1.6 | 0.1 | 1.7 |
| Acquisitions | - | - | - | - | - | - | - | - | - | - | - | - |
| | (0.2) | (0.1) | - | 0.2 | - | (0.1) | - | 1.3 | 0.4 | 1.6 | 0.1 | 1.7 |
| Interest payable on bank borrowings | | | | | | | | | | | | |
| Interest income | | | | | | | | | | | | |
| Pension scheme: | | | | | | | | | | | | |
| Interest charge | (0.1) | | | | | (0.1) | | | | (0.1) | (1.0) | (1.1) |
| Expected return on assets | 0.4 | | | | | 0.4 | | | | 0.4 | 1.0 | 1.4 |
| Other financial expense | | | | | | | (0.1) | | | (0.1) | | (0.1) |
| Net financial expense | 0.3 | - | - | - | - | 0.3 | (0.1) | - | - | 0.2 | - | 0.2 |
| Profit before tax | 0.1 | (0.1) | - | 0.2 | - | 0.2 | (0.1) | 1.3 | 0.4 | 1.8 | 0.1 | 1.9 |
| Income tax | - | - | - | - | (0.6) | (0.6) | - | - | - | (0.6) | - | (0.6) |
| Profit for the financial year (attributable to Equity Shareholders) | 0.1 | (0.1) | - | 0.2 | (0.6) | (0.4) | (0.1) | 1.3 | 0.4 | 1.2 | 0.1 | 1.3 |
| Dividends | - | - | 6.1 | - | - | 6.1 | - | - | - | 6.1 | - | 6.1 |
| Retained profit/(loss) for the year | 0.1 | (0.1) | 6.1 | 0.2 | (0.6) | 5.7 | (0.1) | 1.3 | 0.4 | 7.3 | 0.1 | 7.4 |

Notes to the Consolidated Accounts continued

32 Explanation of Transition to IFRSs continued

Notes to the IFRS adjustments to the profit for 2004

A summary of the principal differences between UK GAAP and IFRS as applicable to the profit of the Group is as follows:

1 Employee Benefits

Principal difference

Under UK GAAP, the Group measures pension commitments and other related benefits in accordance with SSAP 24 *Accounting for Pension Costs*. Additional disclosures are given in accordance with FRS 17 *Retirement Benefits*. Under IFRS, the Group measures pension commitments and other related benefits in accordance with IAS 19 *Amended Employee Benefits*.

IAS 19 is similar to FRS 17 in that it adopts a balance sheet approach, bringing the deficit/surplus of the pension/post-retirement benefit schemes onto the balance sheet. However, FRS 17 dictates that all actuarial gains and losses are to be recognised directly in reserves, whereas IAS 19 also includes an alternative option allowing actuarial gains and losses to be held on the balance sheet and released to the income statement over a period of time. The Group has elected not to adopt this alternative option and therefore will be accounting for post-retirement benefits in a manner consistent with FRS 17. IAS 19 also requires the fair value of assets to be taken as the bid price of the investments held, as opposed to the mid market price used for FRS 17. Using bid prices in accordance with IAS 19, the fair value of the Group's pension scheme assets is £0.2 million less than an FRS 17 mid market valuation.

Rather than showing solely an operating charge in the income statement, as is the case under current UK GAAP, under IAS 19 a finance charge or income is also recognised. The finance charge relates to the unwinding of the discount applied to the liabilities of the post-retirement benefit schemes. The finance income relates to the expected return on the assets of the schemes.

The Group has three pension schemes, which are required to be accounted for as defined benefit schemes under IFRS.

1i) UK

Impact

Under SSAP 24, a post-retirement benefit charge of £1.5 million was recognised in operating profit in 2004. Under IFRS the net charge of £1.3 million reflects an operating charge of £1.7 million, a finance charge of £1.0 million and a finance income of £1.4 million. Therefore, net effects are a charge to operating costs of £0.2 million and a credit to net financial expenses of £0.4 million.

Overall, the aggregate charge under IFRS is lower than the charge under SSAP 24 by £0.2 million.

1ii) Italy

Impact

Under SSAP 24, a post-retirement benefit charge of £0.3 million was recognised in operating profit in 2004. Under IFRS the total net charge of £0.3 million is split between an operating charge of £0.2 million and a finance charge of £0.1 million. Therefore, there is a net credit in operating costs of £0.1 million and a charge to financial expenses of £0.1 million.

Overall, the aggregate charge under IFRS is the same as the charge under SSAP 24.

1iii) Germany

Impact

Under SSAP 24, a post-retirement benefit charge of £nil was recognised in operating profit in 2004. Under IFRS the total net charge is £0.1 million, an increase of £0.1 million.

2 Share-based Payments

Principal difference

The Group operates a range of share-based incentive schemes (both awards of options and awards of shares) that are impacted by IFRS 2 *Share-based payments*. Under UK GAAP an expense has only been recognised for the awards of shares and this expense has been calculated based on the intrinsic value (the difference between the exercise price and the market value at date of the award). For all other schemes, the intrinsic value was nil. Under IFRS, an expense is recognised in the income statement for all share-based payments (both awards of options and awards of shares). This expense has been calculated based on the fair value at the date of the award using the Black-Scholes pricing model.

Impact

Due to awards under the Group's share-based incentive schemes during the year, a charge is recognised for the full year of £0.1 million.

3 Foreign Exchange

Principal difference

The Group has a range of inter-company funding arrangements in place in order to optimise the sourcing of finance for the Group and optimise the funding of its subsidiaries. Under both UK GAAP and IFRS, foreign exchange gains/losses on intra-group loans are recognised in the income statement, unless the loans can be designated as part of the Group's investment in its foreign operations, when the exchange gains/losses can then be recognised in reserves. However, IFRS is stricter in determining which loans can be designated as part of the Group's investment in its foreign operations, including exclusion of intra-group loans that are not in the functional currency of either the lender or the borrower and intra-group loans that are not long term.

Impact

This has resulted in £0.1 million being transferred from reserves to net finance expense in the income statement.

4 Dividends

Principal difference

Under UK GAAP, the dividend charge is recognised in the profit and loss account when it is proposed. Under IFRS, the dividend charge is not recognised in the income statement but is recognised directly in reserves, and only when the dividend is declared.

Impact

Both the first interim dividend and the final proposed dividend for 2004, £6.1 million in total, have been reversed from the income statement.

5 Development Costs

Principal difference

The Group took the decision on adoption of IFRS to amend its policy for the capitalisation of development costs. The Group's policy to comply with IFRS is to capitalise costs incurred after the 'field evaluation' project development stage, but only if they exceed £150 thousand. Tooling costs are always capitalised. Development expenditure capitalised prior to the transition date does not now meet the criteria for capitalisation under the Group's new policy, and has therefore been de-recognised and charged to the transition date retained earnings.

Impact

The amortisation cost of previously recognised development expenditure (the Drake Freespeak project), totalling £0.2 million has been reversed from the income statement.

6 Tax

i) US goodwill

Principal difference

The Group has US goodwill with a tax basis that is significantly higher than the associated book value. The future tax deductions for this US goodwill will generate significant reductions in the tax paid in the US. Under UK GAAP, the Group recognised a deferred tax liability, representing the difference between the tax benefit given and the potential accounting charge for goodwill. Under IFRS, the Group recognises a deferred tax asset, representing the difference between the tax and book values.

Impact

The additional amortisation of this deferred tax asset generates an additional deferred tax charge of £0.3 million.

ii) German Tax

Principal difference

The Group has a difference between its German tax assets and the book value of the associated assets that is not expected to reverse. Under UK GAAP the Group was not required to recognise a deferred tax asset for this difference. Under IFRS, the Group recognises a deferred tax asset, representing the difference between the tax and book values.

Impact

The additional amortisation of this deferred tax asset generates an additional deferred tax charge of £0.2 million.

Notes to the Consolidated Accounts continued

32 Explanation of Transition to IFRSs continued

Notes to the IFRS adjustments to the profit for 2004 continued

iii) Reversal of SSAP 24 pension prepayment

Impact

The impact of the reversal of the SSAP 24 pension prepayment is to generate an additional deferred tax charge of £0.1 million.

7 Goodwill

i) Positive goodwill

Principal difference

UK GAAP requires goodwill to be amortised over its expected useful economic life. Under IFRS, goodwill is no longer amortised but held at carrying value on the balance sheet and tested annually for impairment (with a specific requirement for goodwill to be tested at the date of transition).

Impact

The goodwill amortisation of £1.6 million charged in the year under UK GAAP has been reversed. Under UK GAAP all goodwill had been tested for impairment for the year ended 31 December 2004, and an impairment charge of £0.3 million was deemed necessary in respect of goodwill that arose on the acquisition of Vega Holdings Inc, in 1999. There is therefore a net increase in net income of £1.3 million.

ii) Negative goodwill

Principal difference

UK GAAP requires negative goodwill to be recognised in the profit and loss account in the periods in which the non-monetary assets are recovered. Under IFRS, the excess of the fair value of net identifiable assets over the cost of acquisition is not recognised and is credited to income immediately.

Impact

The negative goodwill of £0.6 million which arose on acquisition of Charter Broadcast North America Inc., in the year ended 31 December 2004 has been credited to income, whilst the negative goodwill amortisation of £0.2 million in the year under UK GAAP has been reversed, resulting in an increase in net income of £0.4 million.

Reconciliation of opening equity by component of equity

| As at 1 January 2004 | Share capital £m | Share premium £m | Revaluation reserve £m | Translation reserves £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---------------------------------------|---------------------|---------------------|---------------------------|----------------------------|----------------------|-------------------------|--------------------|
| UK GAAP | 8.2 | 2.6 | 1.5 | - | 1.6 | 45.9 | 59.8 |
| IFRS adjustments | | | | | | | |
| Reclassification | | | (1.5) | | | 1.5 | |
| Employee benefits | | | | | | (6.1) | (6.1) |
| Development costs | | | | | | (0.5) | (0.5) |
| Dividends | | | | | | 6.8 | 6.8 |
| Equity settled transactions - reserve | | | | | | 0.1 | 0.1 |
| Equity settled transactions - expense | | | | | | (0.1) | (0.1) |
| Negative goodwill | | | | | | 0.1 | 0.1 |
| Tax | | | | | | 10.0 | 10.0 |
| IFRS Adjustments | | | (1.5) | | | 11.8 | 10.3 |
| IFRS | 8.2 | 2.6 | - | - | 1.6 | 57.7 | 70.1 |

Reconciliation of closing equity by component of equity

As at 31 December 2004

| | Share capital £m | Share premium £m | Revaluation reserve £m | Translation reserves £m | Capital redemption reserve £m | Retained earnings £m | Total equity £m |
|---------------------------------------|------------------------|------------------------|------------------------------|-------------------------------|--|----------------------------|-----------------------|
| UK GAAP | 8.2 | 2.7 | 1.4 | - | 1.6 | 42.8 | 56.7 |
| IFRS adjustments | | | | | | | |
| <i>Opening equity adjustments</i> | | | (1.5) | | | 11.8 | 10.3 |
| Reclassification | | | 0.1 | (3.4) | | 3.3 | |
| Employee benefits | | | | | | (0.4) | (0.4) |
| Development costs | | | | | | 0.2 | 0.2 |
| Dividends | | | | | | (3.1) | (3.1) |
| Equity settled transactions - reserve | | | | | | 0.1 | 0.1 |
| Equity settled transactions - expense | | | | | | (0.1) | (0.1) |
| Negative goodwill | | | | (0.1) | | 0.4 | 0.3 |
| Positive goodwill | | | | | | 1.3 | 1.3 |
| Tax | | | | (0.5) | | (0.6) | (1.1) |
| IFRS | 8.2 | 2.7 | - | (4.0) | 1.6 | 55.7 | 64.2 |

Explanation of material adjustments to the cash flow statement for 2004

Cash and cash equivalents identified in the cash flow include an overdraft amount of £1.0 million.

The move from UK GAAP to IFRS does not change the net cash flow of the Group. The IFRS cash flow format is similar to UK GAAP but presents various cash flows in different categories and in a different order from the UK GAAP cash flow statement.

Company Balance Sheet

As at 31 December 2005

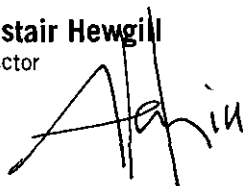
| | Notes | 2005 £m | Restated ⁽¹⁾ 2004 £m |
|---|-------|------------|---------------------------------------|
| Fixed assets | | | |
| Tangible assets | 7 | 1.8 | 1.9 |
| Investments | 8 | 236.6 | 206.5 |
| | | 238.4 | 208.4 |
| Current assets | | | |
| Debtors | 9 | 4.2 | 4.7 |
| Cash at bank and in hand | | 5.3 | 17.5 |
| | | 9.5 | 22.2 |
| Creditors - due within one year | 10 | (154.0) | (146.6) |
| Net current liabilities | | (144.5) | (124.4) |
| Total assets less current liabilities | | 93.9 | 84.0 |
| Creditors - due after more than one year | 10 | (17.2) | - |
| Provisions for liabilities and charges | 11 | (0.1) | (0.1) |
| Net assets | | 76.6 | 83.9 |
| Capital and reserves | | | |
| Called up share capital | 12 | 8.2 | 8.2 |
| Share premium account | 13 | 2.7 | 2.7 |
| Capital redemption reserve | 13 | 1.6 | 1.6 |
| Revaluation reserve | 13 | 0.9 | 0.9 |
| Other reserves | 13 | 53.7 | 53.7 |
| Profit and loss account | 13 | 9.5 | 16.8 |
| Shareholders' funds - equity | | 76.6 | 83.9 |

⁽¹⁾ The 2004 comparatives have been restated to comply with FRS 21 Events After the Balance Sheet Date (see Note 5 Dividends) and FRS 25 Financial Instruments.

Approved by the Board on 6 March 2006 and signed on its behalf by

Alastair Hewgill

Director



Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December 2005

| | 2005 £m | Restated ⁽¹⁾ 2004 £m |
|--|------------|---------------------------------------|
| (Loss)/profit for the financial year | (1.2) | 1.9 |
| Dividends | (6.1) | (9.3) |
| | (7.3) | (7.4) |
| Exchange rate movements on foreign net investments | - | (0.4) |
| New share capital subscribed | - | 0.1 |
| Net decrease in shareholders' funds | (7.3) | (7.7) |
| Opening shareholders' funds | 83.9 | 91.6 |
| Closing shareholders' funds | 76.6 | 83.9 |

⁽¹⁾ The 2004 opening and closing shareholders' funds have been restated to comply with FRS 21. This restatement has increased 2004 closing shareholders' funds by £3.7 million.

Notes to the Company Accounts

1 Basis of presentation

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluation of certain land and buildings.

Under Section 230 (4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 the Company is exempt from the requirement to present a cash flow statement on the grounds that this is included in the Group consolidated accounts.

The financial instruments disclosures required by FRS 25 are not included in these accounts as the information is disclosed in the Group accounts.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

In these accounts the following new standards have been adopted for the first time:

- FRS 20 Share Based Payments
- FRS 21 Events After The Balance Sheet Date
- FRS 23 The Effects of Changes in Foreign Exchange Rates
- FRS 25 Financial Instruments: Presentation and Disclosure
- FRS 26 Financial Instruments: Measurement

The accounting policies under these new standards are set out below. The adoption of FRS 23, 25 and 26 has had no material effect on the Company's accounts.

The corresponding amounts in these financial statements been restated in accordance with the new policies, other than those covered by the exception permitted by FRS 25 which allows corresponding amounts not to be restated and the Company has adopted this approach.

Fixed assets and depreciation

Depreciation is provided to write off the cost or valuation of the relevant assets less the estimated residual value of tangible fixed assets by equal annual amounts over their expected useful economic lives. No depreciation is provided on freehold land. Other fixed assets are depreciated as follows:

| | |
|--------------------------------|--|
| Freehold buildings | 2½% – 5% on cost or valuation |
| Short leasehold property | over the remaining period of the lease |
| Motor vehicles | 25% – 33⅓% on cost |
| Equipment, fixtures & fittings | 10% – 33⅓% 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.

Foreign currencies

Transactions in foreign currencies are recorded using the monthly average rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

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

Post-retirement benefits

The company participates in a UK group pension scheme providing benefits based on both final pensionable salary and on contributions paid. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement Benefits accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss accounts represents the contributions payable to the scheme in the year.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Employee share schemes

The share option programme allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Options' fair values are calculated using Black-Scholes or Monte Carlo simulation models.

For cash settled share based payment transactions the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which employees became unconditionally entitled to the payments.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Investments

Fixed asset investments are stated individually at cost less, where appropriate, provision for impairment in value.

Financial instruments

Financial instruments have been recognised in accordance with Group accounting policies. Derivative financial instruments have had no financial impact on these accounts due to equal and opposite internal instruments written with certain of the Company's operating subsidiaries.

Derivatives are recognised initially at cost, and subsequent to initial recognition at fair value. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The fair value of 'simple' option contracts is their quoted market price at the balance sheet date.

Derivatives are de-recognised when they mature or are sold.

The gain or loss on re-measurement to fair value is recognised immediately in the income statement unless the derivatives qualify for hedge accounting.

Hedge of Monetary Assets and Liabilities

Where a derivative is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of a Net Investment in a Foreign Operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement. The effective portion will be recycled into the income statement when the foreign operation will be sold.

Previous Accounting Policy

Prior to 1 January 2005, the Company accounted for derivatives in accordance with UK GAAP. Derivatives were only recognised when they were used to hedge the foreign exchange exposure of a recognised monetary asset or liability, and any gain or loss on the hedging instrument was recognised directly in the income statement.

Notes to the Company Accounts continued

3 Employees

| Aggregate remuneration of all employees during the year | 2005 £m | 2004 £m |
|---|------------|------------|
| Wages and salaries | 1.5 | 1.3 |
| Employers' social security costs | 0.2 | 0.1 |
| Employers' pension costs | 0.2 | 0.2 |
| | 1.9 | 1.6 |

| Average number of employees during the year | 2005 | 2004 |
|---|------|------|
| | 13 | 12 |

4 Directors' Remuneration

The emoluments, share options, awards under incentive schemes and pension entitlements of the directors are disclosed in the Remuneration Report.

5 Dividends

| The aggregate amount of dividends comprises: | 2005 £m | 2004 £m |
|--|------------|------------|
| Final dividends paid in respect of prior year but not recognised as liabilities in that year | 3.6 | 6.8 |
| Interim dividends paid in respect of the current year | 2.5 | 2.5 |
| Aggregate amount of dividends paid in the financial year | 6.1 | 9.3 |

A final 2005 dividend of 9.4 pence per share, which will absorb £3.9 million (2004: 8.9 pence absorbing £3.6 million) has been recommended by the Board.

The 2004 comparatives reflect the new accounting rules under FRS 21 whereby dividends are only recognised when a legal liability exists.

6 Pensions

The Company is a member of a larger UK group wide pension scheme providing benefits based both on final pensionable pay and on contributions. Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS17 Retirement Benefits, the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme. At 31 December 2005, under UK GAAP, the UK scheme had a defined benefit liability of £2.9 million, which is £3.1 million under IFRS.

The contributions paid by the Company in the year amounted to £0.2 million (2004: £0.2 million). The expected Company contributions in 2006 are £0.2 million.

Further details of the UK pension scheme are disclosed on pages 76 to 78.

7 Tangible Fixed Assets

| | Total £m | Land and buildings £m | Motor vehicles £m | Equipment fixtures and fittings £m |
|---|-------------|-----------------------------|-------------------------|---|
| Cost or valuation | | | | |
| At 1 January 2005 and at 31 December 2005 | 3.4 | 3.0 | 0.1 | 0.3 |
| Depreciation | | | | |
| At 1 January 2005 | 1.5 | 1.2 | - | 0.3 |
| Charge for the year | 0.1 | 0.1 | - | - |
| At 31 December 2005 | 1.6 | 1.3 | - | 0.3 |
| Net book value | | | | |
| At 31 December 2005 | 1.8 | 1.7 | 0.1 | - |
| At 1 January 2005 | 1.9 | 1.8 | 0.1 | - |

| | 2005 £m | 2004 £m |
|---|------------|------------|
| Net book value of land and buildings at cost or valuation comprise the following | | |
| Carried at cost | - | 0.1 |
| Carried at valuation (open market basis - 31 March 1989) | 1.7 | 1.7 |
| | 1.7 | 1.8 |
| Freehold | 1.7 | 1.7 |
| Short Leasehold | - | 0.1 |
| | 1.7 | 1.8 |

The 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 land and buildings has been retained as allowed for by the transitional provisions set out in FRS 15 Tangible Fixed Assets.

The Company had the following annual commitments under operating leases:

| | Land and buildings | |
|----------------------------|--------------------|------------|
| | 2005 £m | 2004 £m |
| Expiring two to five years | 0.1 | - |
| Expiring after five years | - | 0.1 |
| | 0.1 | 0.1 |

Notes to the Company Accounts continued

8 Fixed Asset Investments

| Investments at cost or written down value | Investments in other | | |
|---|----------------------|--------------|-------------|
| | Total £m | shares £m | Loans £m |
| Cost | | | |
| At 1 January 2005 | 225.6 | 84.6 | 141.0 |
| Additions | 49.4 | 18.5 | 30.9 |
| Disposals | (12.1) | - | (12.1) |
| At 31 December 2005 | 262.9 | 103.1 | 159.8 |
| Provision | | | |
| At 1 January 2005 | 19.1 | - | 19.1 |
| Increase in the year | 7.2 | 5.7 | 1.5 |
| At 31 December 2005 | 26.3 | 5.7 | 20.6 |
| Net book value | | | |
| At 31 December 2005 | 236.6 | 97.4 | 139.2 |
| At 1 January 2005 | 206.5 | 84.6 | 121.9 |

The Company's principal subsidiaries at 31 December 2005 are listed on page 56.

9 Debtors

| | 2005 £m | Restated 2004 £m |
|---|------------|------------------------|
| Amounts falling due within one year | | |
| Amounts owed by subsidiaries | 1.5 | 2.6 |
| Other debtors | 1.1 | 0.4 |
| Derivative financial instruments - forward exchange contracts | 1.1 | 0.3 |
| Derivative financial instruments - option exchange contracts | 0.1 | 1.2 |
| Tax recoverable | 0.3 | 0.1 |
| Prepayments and accrued income | 0.1 | 0.1 |
| | 4.2 | 4.7 |

10 Creditors

| | 2005 £m | Restated 2004 £m |
|---|------------|------------------------|
| Amounts falling due within one year | | |
| Bank loans (unsecured) | - | 24.7 |
| Amounts owed to subsidiaries | 151.0 | 119.1 |
| Derivative financial instruments - forward exchange contracts | 1.1 | 0.3 |
| Derivative financial instruments - option exchange contracts | 0.1 | 1.2 |
| Other creditors | 0.1 | 0.1 |
| Accruals and deferred income | 1.7 | 1.2 |
| | 154.0 | 146.6 |
| Amounts falling due after more than one year | | |
| Bank loans (unsecured) | 17.2 | - |
| | 17.2 | - |

11 Provisions for Liabilities and Charges

| | Deferred tax £m | |
|--|--------------------|------------|
| At 1 January 2005 and at 31 December 2005 | 0.1 | |
| | 2005 £m | 2004 £m |
| Composition of deferred tax provision | | |
| Accelerated tax depreciation allowances | 0.1 | 0.1 |
| Other timing differences | - | - |
| | 0.1 | 0.1 |

The deferred tax provision arose because of timing differences between the treatment of certain items for tax and accounting purposes.

12 Share Capital

The authorised share capital at 31 December 2005 consisted of 65,000,000 (2004: 65,000,000) shares of 20p each, of which 41,086,719 were allotted and fully paid. The movement during the year was:

| | Shares | Issued share capital £m |
|---------------------------|------------|----------------------------|
| At 1 January 2005 | 41,081,105 | 8.2 |
| Exercise of share options | 5,614 | - |
| At 31 December 2005 | 41,086,719 | 8.2 |

12a Share-based Payments

Details of the share-based payments can be found on page 70.

12b Share Option Schemes

At 31 December 2005 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 | 270,962 | 231p-595p | 2006-2012 |
| International SAYE plans | 262,615 | 231p-439p | 2006-2010 |
| Executive schemes | 1,416,590 | 257.5p-653p | 2006-2015 |
| | 1,950,167 | | |

On 2 June 2005, awards over an aggregate of 557,090 shares in the Company were made to 67 senior Group executives under the Company's Long Term Incentive Plan. The total number of shares outstanding at 31 December 2005 under the Company's Long Term Incentive Plan was 914,279 (2004: 476,283). The terms of the awards and the related performance conditions are described in the Remuneration Report.

On 30 June 2005, awards over an aggregate of 93,441 shares in the Company were made to nine senior Group executives under the Company's Deferred Bonus Plan. The total number of shares outstanding at 31 December 2005 under the Company's Deferred Bonus Plan was 140,161 (2004: 47,295). The terms of the awards and the related performance conditions are described in the Remuneration Report.

Notes to the Company Accounts continued

13 Reserves

| | Share Premium account £m | Capital Redemption reserve £m | Revaluation reserve £m | Merger reserve £m | Other reserves £m | Profit and loss account £m |
|----------------------------|-----------------------------------|--|------------------------------|-------------------------|-------------------------|-------------------------------------|
| At 1 January 2005 | 2.7 | 1.6 | 0.9 | 9.7 | 44.0 | 13.1 |
| Prior year adjustment | - | - | - | - | - | 3.7 |
| At 1 January 2005 restated | 2.7 | 1.6 | 0.9 | 9.7 | 44.0 | 16.8 |
| Loss for the year | - | - | - | - | - | (1.2) |
| Dividends paid | - | - | - | - | - | (6.1) |
| 31 December 2005 | 2.7 | 1.6 | 0.9 | 9.7 | 44.0 | 9.5 |

Other reserves represents the capitalisation of the share premium account, £22.7 million in 1989 and £37.3 million in 1995, less £16 million of share repurchases in 1995.

During the year the Company adopted FRS 21 Events after the Balance Sheet Date which superseded SSAP 17. Under the new standard, final dividends payable are recognised only in the period in which they are declared at the Annual General Meeting and therefore become a liability and interim dividends are recognised in the period in which they are paid, whereas under SSAP 17 dividends were accrued for when proposed. This has resulted in an increase of £3.7 million in retained profits at 1 January 2005.

In 2002 the Company purchased 142,857 own shares, representing 0.3% (2004: 0.3%) of the called up share capital of the Company at an average price of 314.26p per share in connection with a share option made to Gareth Rhys Williams. These shares are being held in trust by Mourant & Co Trustees Limited. Further details of these own shares can be found in the Remuneration Report.

14 Financial Instruments

a) Financial liabilities

i) Analysis of borrowings

| | 2005 £m | 2004 £m |
|-----------------------------|------------|------------|
| Bank loans | 17.2 | 24.7 |
| Gross financial liabilities | 17.2 | 24.7 |

ii) Maturity profile

| | 2005 £m | 2004 £m |
|--|------------|------------|
| Within one year or less | - | 24.7 |
| More than two years but not more than five years | 17.2 | - |
| | 17.2 | 24.7 |

The total amount of bank loans any part of which falls due after five years is £nil (2004: £nil).

The Company had the following undrawn borrowing facilities at the end of the period:

| | 2005 £m | 2004 £m |
|---|-------------|-------------|
| Expiring in one year or less | | |
| - committed facilities | - | 30.3 |
| - uncommitted facilities | 8.6 | 13.5 |
| More than two years but not more than five years | | |
| - committed facilities | 82.8 | - |
| Total | 91.4 | 43.8 |

On 25 January 2005 the Group signed a five year £100 million Multicurrency Revolving Credit Facility Agreement with a syndicate of UK banks.

iii) Interest rate profile

| Currency | Total £m | Floating rate borrowings £m |
|---------------------|-------------|-----------------------------------|
| US\$ | 3.5 | 3.5 |
| Euro | 13.7 | 13.7 |
| At 31 December 2005 | 17.2 | 17.2 |
| Sterling | 12.0 | 12.0 |
| US\$ | 4.2 | 4.2 |
| Euro | 8.5 | 8.5 |
| At 31 December 2004 | 24.7 | 24.7 |

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

b) Financial assets

| Currency | 2005 £m | 2004 £m |
|---------------------|------------|------------|
| Sterling | 5.6 | 18.6 |
| US\$ | - | (0.3) |
| Euro | (0.3) | (1.0) |
| Other | - | 0.2 |
| Total cash balances | 5.3 | 17.5 |

The floating rate financial assets comprise bank balances bearing interest at rates based on LIBOR.

Sterling, US Dollar, Euro and Yen balances within the UK can be offset.

Notes to the Company Accounts continued

14 Financial Instruments continued

c) Fair value of financial assets and liabilities

| | 2005 | | 2004 | |
|--|------------------|------------------|------------------|------------------|
| | Book value £m | Fair value £m | Book value £m | Fair value £m |
| Cash at bank and in hand | 5.3 | 5.3 | 17.5 | 17.5 |
| Floating rate borrowings | (17.2) | (17.2) | (24.7) | (24.7) |
| Forward exchange contracts - Assets | 1.1 | 1.1 | 0.3 | 0.3 |
| Forward exchange contracts - Liabilities | (1.1) | (1.1) | (0.3) | (0.3) |
| Option exchange contracts - Assets | 0.1 | 0.1 | 1.2 | 1.2 |
| Option exchange contracts - Liabilities | (0.1) | (0.1) | (1.2) | (1.2) |
| | (11.9) | (11.9) | (7.2) | (7.2) |

Market rates have been used to determine fair values.

The Company has equal and opposite internal foreign exchange contracts matching the external foreign exchange contracts the Company has taken out with financial institutions.

Estimation of Fair Values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Derivatives

Forwards are marked to market by calculating the contractual forward price and deducting the current spot rate. Options and cylinders are marked to market by obtaining quotes from banks of their market value as at 31 December.

(i) Maturity profile of Derivatives

| | Within one year or less £m | More than one year but not more than two years £m | 2005 |
|--|----------------------------------|--|------------------------------|
| | | | More than two years £m |
| Forward exchange contracts - Assets | 0.1 | - | - |
| Forward exchange contracts - Liabilities | (0.9) | (0.1) | - |
| Option exchange contracts - Assets | 0.1 | - | - |
| Option exchange contracts - Liabilities | - | - | - |
| | (0.7) | (0.1) | - |

| | 2004 | |
|-------------------------------------|------|----|
| | £m | £m |
| Forward exchange contracts - Assets | 0.3 | - |
| Option exchange contracts - Assets | 1.2 | - |
| | 1.5 | - |

All the options are to sell Euros for US Dollars and have an exercise price between US\$1.15 = €1 and US\$1.31 = €1.

During 2003 and 2004 forward option contracts selling US Dollars and purchasing Euros were taken out to cover anticipated US Dollar currency receipts covering the period January 2005 to December 2005. These forward option contracts totalled £9.3 million. In 2005 further forward option contracts selling US Dollars and purchasing Euros, totalling \$21.9 million, were taken out to cover anticipated US Dollar currency receipts covering the period January 2006 to June 2007 and the unrecognised gains on all these options at 31 December 2005, based on the exchange rates on that date, were £nil million (2004: £1.1 million). The Group's foreign exchange hedging policy is set out in the Financial Review.

During 2004 forward option contracts selling US Dollars and purchasing Sterling were taken out to cover anticipated US Dollar receipts covering the period January 2005 to August 2005. These totalled £0.9 million.

Interest bearing loans and borrowings

All interest bearing loans and borrowings are at floating rates. Therefore, the fair value of these loans and borrowings is their carrying value.

15 Related Party Transactions

There are no related party transactions to report.

16 Post Balance Sheet Events

There are no post balance sheet events to report.

Five Year Financial Summary

| Year ended 31 December | IFRS | | UK GAAP | | |
|--|-------|-------|---------------------------------|---------------------------------|-------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | £m | £m | (restated) ^(a) £m | (restated) ^(a) £m | £m |
| Revenue | 194.9 | 185.4 | 192.8 | 182.2 | 190.4 |
| Operating profit before significant items | 20.0 | 17.8 | 17.8 | 24.7 | 30.6 |
| Net interest on bank borrowings | (1.3) | (1.6) | (1.7) | (1.6) | (2.6) |
| Other financial expense | (0.3) | 0.3 | 0.0 | 0.0 | 0.0 |
| Profit before tax and significant items | 18.4 | 16.5 | 16.1 | 23.1 | 28.0 |
| Cash generated from operations | 29.8 | 22.5 | 28.7 | 35.4 | 42.1 |
| Net interest paid | (1.8) | (1.7) | | | |
| Tax paid | (1.6) | (1.4) | | | |
| Operating cashflow | 26.4 | 19.4 | | | |
| Net capital expenditure on property, plant and equipment and software and development costs capitalised as intangible assets | (9.6) | (8.4) | | | |
| Free cash flow⁽¹⁾ | 16.8 | 11.1 | 2.9 | 21.1 | 18.0 |
| Capital employed | | | | | |
| Intangible fixed assets | 19.9 | 12.8 | 10.1 | 11.0 | 10.8 |
| Tangible fixed assets | 33.6 | 30.7 | 34.5 | 42.7 | 48.5 |
| Other net assets | 17.8 | 27.2 | 29.3 | 24.4 | 34.5 |
| | 71.3 | 70.7 | 73.9 | 78.1 | 93.8 |
| Financed by | | | | | |
| Shareholders' funds - equity | 70.6 | 64.2 | 59.8 | 62.4 | 67.1 |
| Net debt | 5.4 | 11.3 | 10.4 | 11.9 | 22.5 |
| Deferred tax | (4.7) | (4.8) | 3.7 | 3.8 | 4.2 |
| | 71.3 | 70.7 | 73.9 | 78.1 | 93.8 |
| Statistics | | | | | |
| Operating profit (%) before significant items | 10.2 | 9.6 | 9.3 | 13.6 | 16.1 |
| Effective tax rate (%) before significant items | 42.0 | 45.0 | 39.8 | 39.4 | 37.1 |
| Adjusted basic earnings per share (p) ⁽²⁾ | 26.0 | 22.2 | 23.9 | 34.1 | 42.9 |
| Basic earnings per share (p) | 23.9 | 18.8 | 13.6 | 18.3 | 32.9 |
| Dividends per share (p) | 15.5 | 15.0 | 22.7 | 22.7 | 22.7 |
| Year-end mid-market share price (p) | 375.0 | 286.0 | 346.0 | 277.5 | 425.0 |

⁽¹⁾ Free cash flow is the cash inflow from operating activities less interest, tax and capital expenditure on property, plant & equipment, and capitalised IT costs.

⁽²⁾ Differences between Adjusted basic and Basic earnings per share arise from significant items in the years in question.

⁽³⁾ Shareholders' funds have been restated to show the investment held in respect of grants under share option schemes as a deduction. No such investments were held in 2001.

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 Services you can make a transaction or dividend payment enquiry, add or change a dividend mandate or change your registered address.

The Company will again be making use of Capita Registrars' electronic voting facility. By logging on to www.capitaregistrars.com and selecting Shareholder Services you will find details of the Annual General Meeting including the venue and text of resolutions. Shareholders have the facility to vote for, against or withhold and can split or restrict votes, appoint the Chairman of the meeting or a third party as their proxy and include any instruction text. The facility includes CREST voting for members holding their shares in uncertificated form. 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 the Capita Registrars helpline on the numbers given above.

Share price information

The middle market price of a share of The Vitec Group plc share on 30 December 2005, the last dealing day of 2005, was 375p. During the year the share price fluctuated between 286p and 385p. 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 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 | 24 May 2006 |
| Ex-dividend date for 2005 final dividend | 26 April 2006 |
| Record date for 2005 final dividend | 28 April 2006 |
| Proposed 2005 final dividend payment date | 26 May 2006 |
| Announcement of 2006 interim results | September 2006 |
| Proposed 2006 interim dividend payment date | November 2006 |

Analysis of shareholdings as at 31 December 2005

| Shares held | Number of holders | % of holders | Number of shares | % of shares |
|--|-------------------|--------------|------------------|-------------|
| Up to 1,000 | 712 | 55.20 | 296,295 | 0.72 |
| 1,001 to 5,000 | 351 | 27.21 | 832,305 | 2.03 |
| 5,001 to 10,000 | 67 | 5.19 | 461,427 | 1.12 |
| 10,001 to 50,000 | 67 | 5.19 | 1,478,293 | 3.60 |
| 50,001 to 100,000 | 28 | 2.17 | 2,057,809 | 5.01 |
| 100,001 and over | 65 | 5.04 | 35,960,590 | 87.52 |
| | 1,290 | 100.00 | 41,086,719 | 100.00 |
| Institutions and companies | 426 | 33.02 | 38,344,145 | 93.32 |
| Individuals including directors and their families | 864 | 66.98 | 2,742,574 | 6.68 |
| | 1,290 | 100.00 | 41,086,719 | 100.00 |

Notes

Notes

Group Directory

Main offices

Photographic

Bogen Imaging

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USA
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Fax: +1 (201) 818 9177
www.bogenimaging.us

Gitzo

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Tel: +33 (1) 4 397 6065
Fax: +33 (1) 4 397 6064
www.gitzo.com

Kata

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Jerusalem
91042 ISRAEL
Tel: +972 2 5911000
Fax: +972 2 5400504
www.kata-bags.com

Litec

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Tel: +39 (041) 596 0000
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www.litectruss.com

Manfrotto

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PO Box 216
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Fax: +39 (0424) 808999
www.manfrotto.com

Broadcast Systems

Anton/Bauer

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CT 06484
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Tel: +1 (203) 929 1100
Fax: +1 (203) 925 4988
www.antonbauer.com

OConnor

100 Kalmus Drive
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Sachtler

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Fax: +49 (89) 3215 8227
www.sachtler.com

Vinten Broadcast

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Middle East and Africa
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Waterbeach
Cambridge
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Fax: +44 (0)1223 815099
www.vitecgroupcomms.com

Broadcast Services

Audio Specialties Group / Bexel

Bexel Broadcast Services (BBS) - Broadcast Video Gear (BVG) - Digital Cinema Rentals (DCR)
Intercom Specialties (ICS) - Systems Wireless (SWL)

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www.bexel.com

The Vitec Group plc

Directors

Michael Harper BSc Eng, MSc Chairman*
Gareth Rhys Williams BSc MBA Chief Executive
Alastair Hewgill BSc ACMA Finance Director
Sir David Bell MA*
Simon Beresford-Wylie BA*
Nigel Moore FCA*
John Potter CEng MIEE AMBIM*
Will Wyatt CBE BA*

*Non-executive

Secretary

Roland Peate FCIS ACMA

Group head office

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