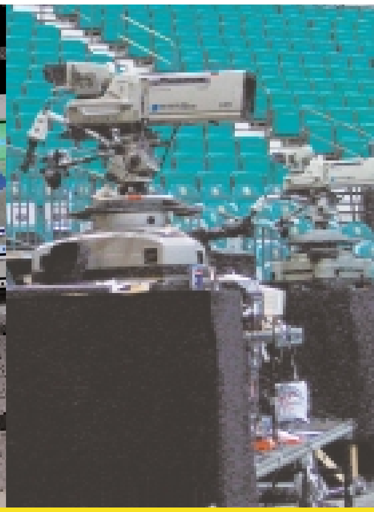
Underlying strength

The Vitec Group plc annual report for 2001

vitec

At the heart of Vitec is an exceptional group of world-wide camera and lighting support brands, together with leading intercoms and equipment rental businesses. Whilst not immune from the current downturn, these businesses have demonstrated their strength and resilience in the most testing market conditions seen for some years.

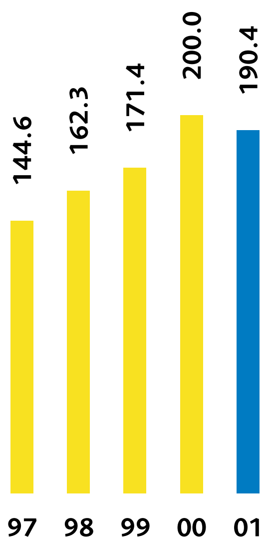


Pictured above left to right:
Sachtler Variohoist at the SF DRS studio in Zürich.
Gitzo tripods used by photographers world-wide.
Vinten remote control camera equipment in the NASDAQ stock exchange, New York.
Bexel providing the broadcast infrastructure at a Britney Spears pop concert in Las Vegas.

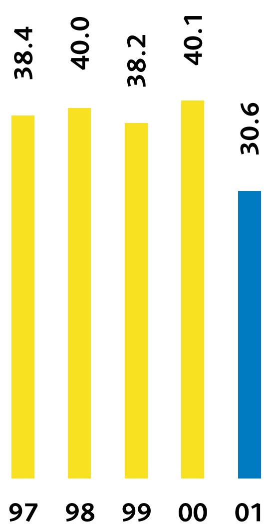
Financial highlights

- Healthy margins despite difficult market conditions
- Tight focus on costs in second half
- Cash conversion of operating profit* improved to 138%
- Recommended increase in total dividend of 7%

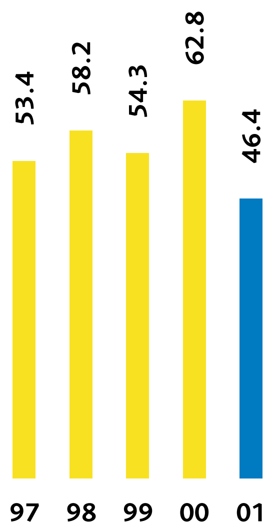
Turnover
(£million)



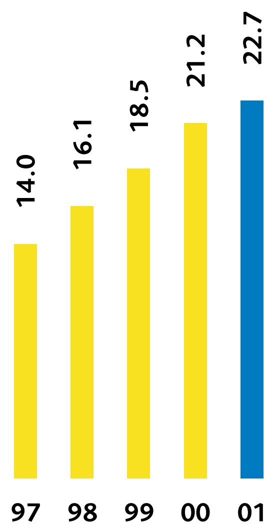
Operating profit*
(£million)



Headline earnings per share*
(pence)



Dividend per share
(pence)



**before exceptional items and goodwill amortisation*

Chairman's statement

Overview In contrast to my statement this time last year, when I was able to report that most of our companies had enjoyed record years, this year the Group's results declined significantly. Many of our businesses are dependent upon the broadcast industry, which has witnessed savage reductions in advertising revenues. However, whilst the lower volumes, combined with an increase in our operating expenses in the first half, inevitably led to a decline in profits, the Group continued to enjoy healthy margins and remains strongly capitalised. As I reported at the time of our interims in early September, we took firm action on costs, particularly in the latter part of 2001, which restored our margins to 16% for the full year. In the second half of the year we reduced the Group's operating expenses by over £6 million compared to the first half.

Financials Turnover decreased by 5% from the record levels of 2000 to £190.4 million – the first time in over 5 years that we have suffered a decline in the top line. Profit before tax, exceptional items and goodwill amortisation was £28.0 million, a decrease of 25% over 2000. Headline earnings per share decreased by 26% to 46.4p.

Operating cash flow, before exceptional items and goodwill amortisation, remained strong. We converted 138% (2000: 114%) of our operating profits into cash, and free cash flow was £18 million (2000: £17.6 million). We made no major acquisitions during the year and net debt at the year end was £22.5 million.

Goodwill amortisation was £0.9 million (2000: £0.6 million) and exceptional items, net of tax, were a charge of £3.2 million (2000: £1.9 million).

Dividend Reflecting the directors' continuing belief in the strength of the Group, the Board is recommending an increased final dividend of 16.6p per share (2000: 15.6p) making a total dividend of 22.7p for the year (2000: 21.2p), covered 2 times by this year's earnings.

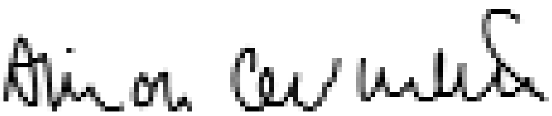
Charitable donations Thankfully none of our staff were injured in the events of September 11. Nevertheless, over half of the Group's business is in the USA and we considered it entirely appropriate to donate US$100,000 to the Twin Towers Fund in New York. Also many of our US and European staff made personal contributions to other funds which are helping families affected by that tragic event.

People Following the resignation of our previous Chief executive in July last year, we appointed Gareth Rhys Williams as Chief executive on 23 November. I and other Board members are delighted that he agreed to join us and he is already demonstrating a good understanding of the issues which we need to address to achieve future growth.

Our staff throughout the Group have worked tirelessly to minimise the impact of poor market conditions on our businesses. I would like to thank them personally for their efforts and their continuing loyalty to the Group. None of our senior staff received an annual performance-related bonus and salaries have been frozen for many of them.

Future prospects A recovery in our own fortunes is heavily dependent upon a recovery of the markets in which we operate. With continuing economic uncertainty in the USA and Europe, we are cautious about short-term prospects in the broadcast industry. However we continue to take action on costs and remain confident that Vitec is well positioned to take advantage of an upturn in our markets.

We continue to look at possible acquisitions of companies in our markets, where we are able to add value and where these businesses can be secured at an acceptable price. The next year may well provide suitable targets.



Alison Carnwath
Chairman

Chief executive's review

Overview Vitec's core markets are broadcasting, entertainment and media. All of these have been significantly affected by the economic slowdown that started in the USA in the first half year, and which was exacerbated by the shock wave following September 11. This slowdown has translated into a particularly marked reduction in advertising spend, on which many of our customers depend. Advertising has seen a trend of strong growth in past years, but this year's fall has been significant.

As a result, the networks' operating and capital budgets are under severe pressure which, combined with their need to upgrade to digital transmission standards, has caused many of them to defer their spend on our products.

The marketplace Vitec's products retain a high profile and visibility with our customers, but the Group's sales volume has been hit hard, particularly in the USA. Broadcast services has had a very tough year as coverage of outside events has been scaled back, and the camera support and intercom businesses that supply the broadcast networks with their infrastructure needs have also been impacted.

However, in the photographic camera and lighting support businesses there was a more muted effect: sales have continued to grow but much more slowly than in the past.

There is also a technology driven trend towards lighter and cheaper digital cameras which has been putting downward pressure on margins as they require lower specification support systems. Additionally, our customers' needs for improved operating efficiencies have resulted in order intake levels for Vinten's robotic pedestals being at very high levels.

Management response Vitec's management have responded to this new set of circumstances in several ways. Overhead costs have been reduced; lean manufacturing programmes stepped up a gear – much work has recently been done to improve flexibility and responsiveness at the individual manufacturing plants. As we enter 2002, working capital controls have been tightened to husband resources for key projects.

Going forward, continuous downward pressure needs to be maintained on our cost base, both direct and indirect. It is clear that maximising the performance of Vitec, not just the individual operations, will require a more integrated approach than in the past. We must also continue to introduce the new products that will enable our customers to exploit their creative skills, and which allow them to do so with greater efficiency. In today's environment we need to ensure that Vitec is leveraging its customer relationships and manufacturing platforms to best effect, maintaining the strength of our brands whilst looking to minimise structural costs.

Underlying strength Despite the economic situation, Vitec's companies continue to be highly respected names in their markets, with exceptional reputations for service and reliability. This is underpinned by the expertise and enthusiasm of our staff.

Our challenge is to find areas in which to grow, where Vitec's customer relationships and skills can be exploited to launch successful new products and to add value to acquisitions.

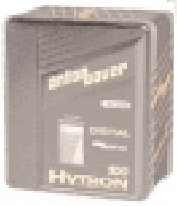
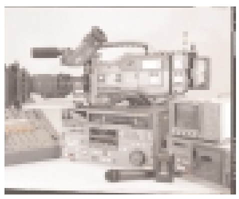
I believe that Vitec's underlying strength, evidenced by its reputation for excellence in both products and service, will enable our company to capitalise on the upturn when it comes, and deliver value for its shareholders. I am looking forward to this challenge.

Gareth Rhys Williams

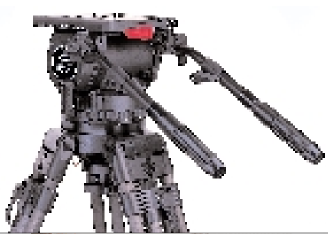
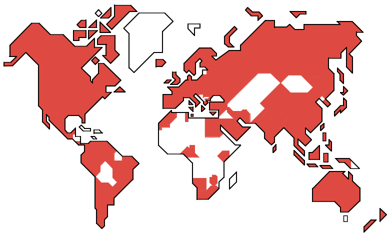
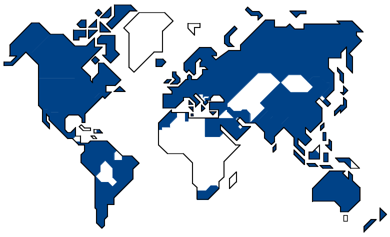
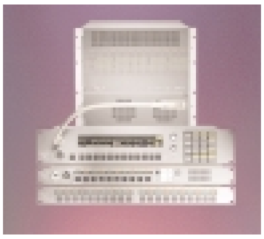
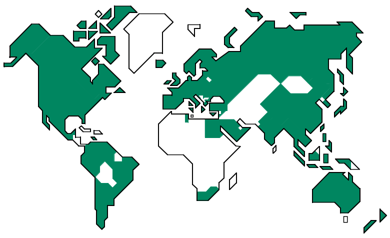
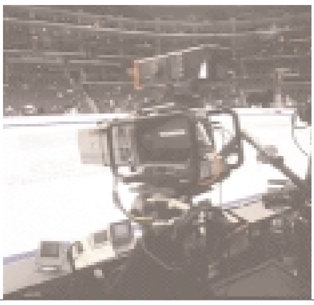
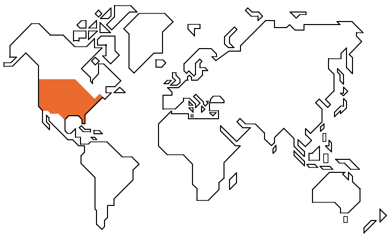
Gareth Rhys Williams
Chief executive

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

It is a major force in its chosen specialised fields.

	Activities	Brands	Products
Broadcast camera systems	Design and manufacture of high precision studio and outside broadcast pedestals and heads; lightweight tripods and heads; remote-controlled pan and tilt camera systems; camera batteries and chargers; on-camera lights and studio lighting suspension systems. Focused on studio broadcast, outside broadcast, electronic news gathering and electronic film production markets.	anton/bauer sachtler Vinten AutoCam	Pedestals and heads for TV production AutoCam remote-controlled camera systems Video tripods and heads for ENG and EFP applications Studio lighting and scenery hoists and pantographs Portable lights Microprocessor-controlled batteries and chargers for video cameras Portable power systems for life support devices 
Photographic and retail display	Design and manufacture of photographic and video camera supports as well as lighting support and suspension equipment, for professional photography, video, broadcast and cinematography markets. Distribution of photographic, video and cine related equipment and accessories. Design, manufacture and distribution of retail display products.	GITZO Manfrotto AVENGER ALU bogen LITEC	Photographic and video heads and tripods Lighting stands, grips, clamps and accessories Lighting and scenery suspension equipment Photographic accessories Live entertainment and exhibition lighting suspension structures Modular metal-based retail display systems 
Communications and audio	Design and manufacture of wired intercom systems, wireless intercom equipment and wireless microphones for the broadcast, live entertainment, air traffic control, aerospace and defence markets.	Clear-Com drake VEGA	Multi locational intercom systems Party-Line intercom systems Wireless intercom systems Wireless microphones 
Broadcast services	Rental services, including engineering support for the film and TV programme production markets and selected sales of camera, video, wireless communication and audio equipment.	ASG bexel	Rental of broadcast video equipment Rental of audio equipment Rental of high definition TV production sup Provision of support for major event broadcasting and webcasting Sales of communications and audio equipm and used video equipment 

With products distributed in nearly 100 countries, either through dealerships or direct to the end user and with manufacturing in five countries, Vitec operates on an international basis.

	Locations	Web addresses	Markets
 	Costa Rica France Germany Japan Singapore UK USA	www.antonbauer.com www.sachtler.com www.vinten.com	
 	Denmark France Italy Sweden UK USA	www.alu.com www.bogenphoto.com www.gitzo.com www.iff.it www.litectruss.com www.manfrotto.com	
 	UK USA	www.clearcom.com www.drake-uk.com	
 	USA	www.a-s-group.com www.bexel.com	


1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1 Photographers everywhere rely on Manfrotto equipment.
2 Group companies provide equipment for control rooms which are at the heart of broadcasting.
3 Live events – whether sporting, music entertainment or corporate – use products and services provided by the Group.
4 Group companies equip and support TV studios world-wide.

The decline in our largest market, the USA, was only partially compensated by strength in Europe and Asia. Lower volumes, product mix changes and higher operating costs reduced margins.

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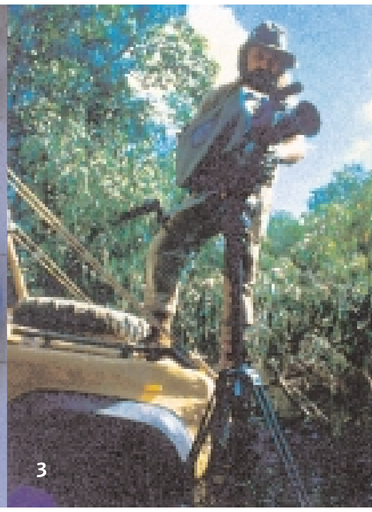
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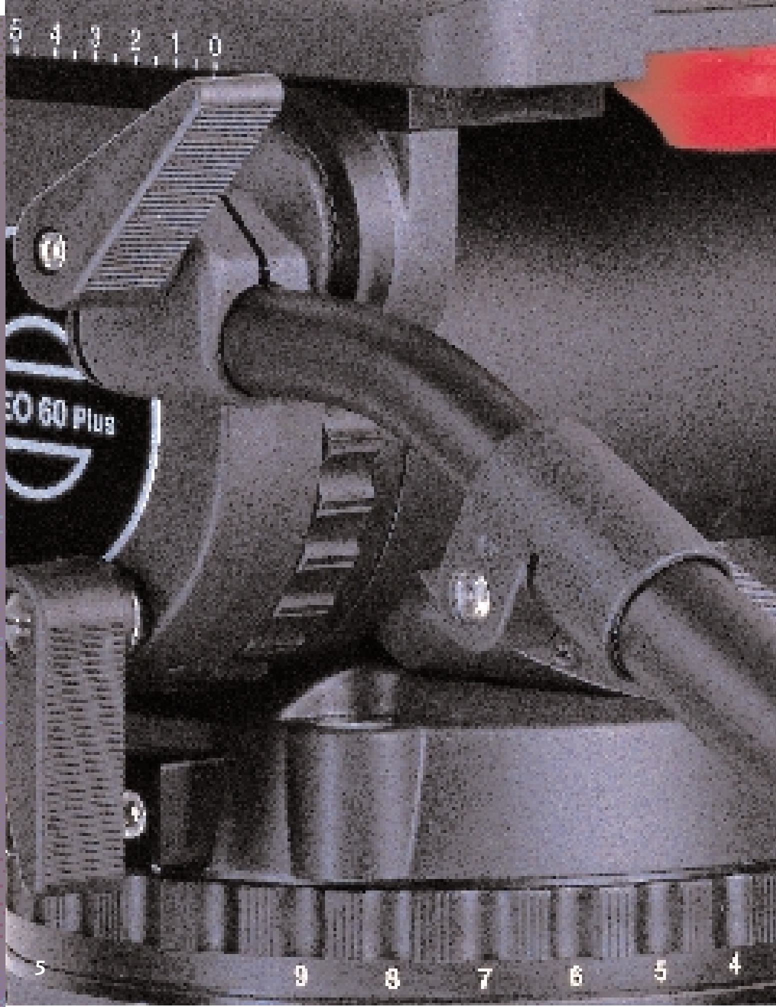
Broadcast camera systems

A combination of weak markets and shifts in product and geographic mix produced turnover 3% lower than the record year in 2000. However, strong growth in sales of robotic studio lighting and camera systems was attained, reflecting the increasing trend toward automation in TV studios, as the networks pursue ways to reduce their production costs whilst maintaining programme quality. Vinten's AutoCam robotic and remote-controlled camera systems provide cost effective solutions for studio news programme production, whilst Sachtler's automated suspension and lighting management systems provide high quality, state-of-the-art solutions to customers who are building new studios or modernising existing studios. The growing market for AutoCam products is highly competitive and prices had to be reduced during the year. Additionally both AutoCam and studio suspension margins are lower than the traditional camera pedestal business. Demand was also higher for the lower margin, lightweight camera support systems. These mix changes, coupled with slightly higher operating costs, caused a fall in profit margins.

Generally, sales of camera support and lighting equipment used in studio production, outside broadcasting and film-for-TV output were lower than last year. However, unit volumes of lightweight equipment used in electronic news gathering (ENG) increased. In the USA, lower sales of high-end manual studio pedestals and heads resulted as programme schedules were cut back whereas demand for AutoCam systems was high. Markets in Europe and the Far East, particularly China, Korea and Japan, performed well, partially making up for the USA shortfall. Germany, France and the Middle East softened in the second half of the year. Anton/Bauer's world-wide sales of batteries were lower than last year, adversely impacted by the decline in sales of high-end broadcast cameras and delays in the conversion to digital cameras in the marketplace.



In Germany, Vinten won a US$1 million order from the Home Shopping Channel Europe for their new Quattro-Z robotic pedestals. Vinten also announced a joint marketing venture with JL Fisher, the leading manufacturer of film camera support equipment, based in Burbank, California. This gives Vinten access to the growing market for high definition digital film making. In October, Vinten was awarded the Guild of Television Cameramen UK seal of approval for the Vector 700 panning head. Sachtler won a contract worth Euro 5 million over four years with ORF TV in Austria to supply fully motorised studio lighting suspension systems. The Sachtler solution helps to improve studio utilisation by minimising set up times for new productions. ORF TV also adopted Anton/Bauer batteries as the standard to power their new Sony MPEG IMX format camera systems.

Anton/Bauer launched TITAN 70, a unique battery/charger combination aimed at the growing 'event' market segment. The high power demands of high definition and digital film cameras were successfully met with Anton/Bauer's 100-watt hour HyTRON 100 system, which was adopted as standard by Panavision.

Implementation of manufacturing efficiency programmes continued during the year. Operating costs increased in the first half but were reduced in the second half to levels similar to those in the first half of 2000. Headcount at the year end was 6% lower than last year. New product development costs were increased by 8%. It is of paramount importance to maintain and enhance our valuable brands by continuing to launch innovative, cost efficient, high quality products into the broadcast market. These investments are included in operating costs.

	2001	2000
Turnover	£65.8m	£67.6m
Operating profit*	£12.3m	£15.2m
Operating margin	18.7%	22.5%

**before exceptional items and goodwill amortisation*

1 Sachtler Variohoists are used extensively at the SF DRS studio in Zürich.

2 Korean Broadcasting System, the country's premier television station, uses Vinten Quattro pedestals. It will provide complete coverage of the 2002 World Cup.

3 Sachtler Hotpod and Video 20P head employed for wildlife videography.

4 A Vinten Quattro OB Pedestal specifically designed for the needs of outside broadcast and field production.

5 Precision engineering, the heart of the Sachtler Video 60 lightweight, vibration free head.

The USA, the most important market, suffered the worst trading conditions for over 10 years. Strength in the European and Asian markets for most of the year greatly mitigated the effects of this decline.

Photographic and retail display

USA turnover was 11% lower than last year as the photographic market in the USA fell by over an estimated 20% compared to 2000. In contrast European markets were strong for most of the year, but started to weaken in the final quarter. Sales increased in Asia where some slowing in the Taiwanese and South Korean markets in the second half was offset by strength in Japan and China.

Sales of the higher margin photographic camera and lighting supports products were lower than last year, although sales of video camera supports were slightly ahead. Bogen set up a new studio division to address the broadcast, theatre and architectural markets in the USA and Canada for the IFF lighting suspension systems, helping IFF win its first prestigious project in the Sony Music Studios in Manhattan. IFF also won a notable contract to supply Indentisystems to the Italian police. Litec once again increased sales of its lighting suspension structures by 30% over the prior year.

New product activity included the restyling and improvement of the 190 tripod range, the launch of the 540ART video tripod, featuring the unique ART rapid deployment technology and, importantly, the 516 video head replacing the 116 MK3 head.

To reduce costs, the Italian companies are being consolidated into a leaner corporate structure and Gitzo production was relocated from France to Italy into a facility vacated by the consolidation of the Avenger manufacturing in Bassano. Also Bogen completed its warehouse and distribution reorganisation. The new Movex IT system was successfully implemented in the USA and France, the first steps towards a division-wide integrated system by the end of 2002.

4

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The USA recession affected retailers particularly in the second half, during which the effects of the September 11 attacks were also keenly felt. Retailers cut their prices in order to stimulate sales. Also they reduced staffing levels and other costs. Furthermore, mass retailers took market share from the department stores and specialty retailers, Alu's core customers. In the second half, Alu's USA sales fell over 20% compared with last year. Europe fared much better, where sales for the year increased 70% on 2000. This was primarily due to increased custom project business, although the markets in Italy, Benelux, Spain and Sweden performed well. However the German market slowed significantly.

In the USA, Alu supplied Levi Strauss for its national back to school programme and Ralph Lauren Polo for their department store 'shop in shop' concept. In Europe, Alu won significant business with Benetton for its world-wide roll out of standard components, and with Nokia to equip its European outlets with custom-designed display equipment.

New products successfully introduced were Autoforms, laminated shelving and a new range of signholders. These new accessories complement our customers' existing Alu systems and also satisfy the needs of new customers in creating a differentiated look.

The new Alu factory and warehouse in Bassano was completed in April. The Alu USA warehousing operation and the administrative functions have been consolidated on a new single site in New Jersey. In August Alu acquired its Swedish distributor for £0.3 million.

	2001	2000
Turnover	£75.2m	£73.8m
Operating profit*	£16.4m	£18.0m
Operating margin	21.8%	24.4%

**before exceptional items and goodwill amortisation*

1 Manfrotto video camera head manufactured to exacting standards for the professional broadcast market.
2 A theatrical production of the musical 'Jesus Christ Superstar' imaginatively using Litec products to great effect.
3 The largest department store in Canada, The Bay, uses Alu products in over 100 of its stores.
4 Manfrotto 440 lightweight carbon fibre and magnesium tripod for both still photography and video camera use.
5 On location in Italy using Avenger products for the shooting of a major film due for release in 2002.


1

Following an outstanding year in 2000 for Clear-Com and Drake, their core broadcast markets softened due to cut backs on expenditure. Live entertainment and voice communications marketplaces also weakened. Despite cost reduction measures, profit levels were low.


2


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Communications and audio

Sales volumes declined by over 20%. Headcount was reduced by 34% which, together with other actions, reduced operating costs by £1 million in the second half. Operating costs were 6% lower than last year and are now lower than their 2000 levels.

2001 saw many changes. In May, Vega's operation in Los Angeles was relocated and integrated with Clear-Com in San Francisco, where the workforce also had to be reduced in order to lower costs. Clear-Com completed the restructuring of its international sales organisation. Drake's broadcast international sales team was strengthened in the Middle East and in South East Asia, with the opening of an office in Singapore. In addition, the world-wide sales and product development activities of its voice communications business were greatly improved. Demand flow manufacturing is being introduced at Clear-Com, with the first manufacturing cell now fully operational. Successfully meeting customer demand from this cell within one working day, this rapid response methodology is being implemented for all other products.

Despite the downturn, many successes in winning major international projects were recorded. In the broadcast sector, Clear-Com product was chosen by the Big Brother TV show in the UK, GG Studios in Israel, TV Globo in Brazil, Fukui Broadcasting in Japan and the Home Shopping Network in four EU countries. Clear-Com's live entertainment customers included L'Opera Bastille in France, Disney Europe, Auditorio de Tenerife in Spain as well as several cruise ships and the Goodwill Games. Building on its CD-quality communications heritage, Drake was selected by Swansea Airport in the UK to supply their new Small Tower Voice Switch system for air traffic control tower communications following the airport's recent CAA approval. Drake's solution supports commercial flights seven days a week and comprises a central voice switching matrix and operator positions interfacing seamlessly with existing radio frequencies and telephone lines.

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Drake also completed further important work for DFS, the German Air Traffic Control Authority. As part of the 'System East' modernisation programme, six airports in eastern Germany have been digitally networked. One of the most technically advanced in the world, the network features Drake's colour touchscreens and Venix digital communications equipment delivering high quality audio with automatic ISDN backup.

Several new products were launched during 2001. Clear-Com introduced the RCS-2000 programmable source-assignment panel and the PS232a world-class power supply for its Party-Line range. Its Matrix Plus 3 product line was also improved with the addition of the i-series line of modular, expandable intercom panels. Vega's frequency-agile wireless intercom, the Q700, was launched in June and shipments made to several high profile venues.

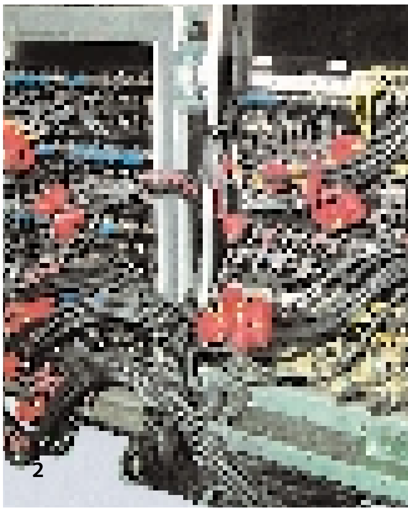
Drake launched the Refresh range of user panels. Featuring high-contrast vacuum fluorescent displays, they give unrivalled legibility in the broadcast industry, with a new ergonomic key design.

	2001	2000
Turnover	£18.1m	£21.8m
Operating profit*	£0.8m	£1.9m
Operating margin	4.4%	8.7%

**before exceptional items and goodwill amortisation*

1 Drake technology is used extensively at the heart of German Air Traffic Control systems.
2 Denmark's TV2 television news broadcast company uses Drake's leading edge technology to link its 10 regional studios.
3 The Vega Q700 wireless intercom system is customizable to the differing needs of performance and event production in broadcast and industrial communications applications.
4 Clear-Com Party-Line professional intercom headset with microphone.
5 Clear-Com series 500 beltpack. Two channels allow simultaneous listening and talking.

The absence of large international events meant the companies were almost entirely dependent on the USA economy. Turnover was 15% lower. Despite cost reduction measures and efforts to reduce the rental asset base, profits were 78% lower.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Broadcast services

The major USA TV networks responded to the severe contraction in their advertising by cutting their programming budgets, resulting in substantially lower rental revenues. The New York attacks caused further curtailment or cancellation of many entertainment and commercial events served by our companies.

Staffing levels were reduced by 22% which, together with other cost reduction programmes, resulted in second half operating expenses being over 16% lower than in the first half.

Sales training initiatives and focused marketing campaigns were implemented in order to optimise turnover. An improved sales and marketing infrastructure, including a sophisticated customer database and contact management system, was instituted. The results have been encouraging, although the full potential of this shift in approach will not be realized until 2002 and beyond.

Significant investment was made in a new operational and financial IT system which will result in faster and better analysis of rental assets and contract performance, improved asset utilisation, more effective capital expenditures and further savings in variable rental costs in the future.

In order to contain the fall in asset utilisation, sales of used rental equipment were increased and planned recurring capital expenditures were reduced in line with the lower rental turnover. However, several major additional capital investments were made in order to improve our rental offerings. Bexel Broadcast Services, focused on large events, designed and constructed its first Mobile Editing and Support truck ('BBS ONE'). This 53 foot unit is designed to meet the evolving needs of broadcast sports producers, helping them reduce costs by providing efficient delivery of our equipment to major events throughout the USA.

4

It features two interchangeable edit suites which can be customized to meet the technical requirements of each event, and can be used for two different customers concurrently. Following its commissioning in November, BBS ONE has served several high profile events, including the Tiger Woods Golf Challenge (during which Tiger Woods was interviewed inside the truck), the Britney Spears concert in Las Vegas and the National Collegiate and Professional Football playoff games. To prepare for the World Cup and Winter Olympics, Bexel also replaced its inventory of character generation equipment. These devices produce the graphics displayed on screen for sporting and other live televised events. The inventory of super slow motion cameras and digital disk recorders was also upgraded and expanded with state of the art gear. These are specialised 90 frame camera systems used primarily for sporting events. Bexel is now firmly positioned as the leader in this part of the rental market.

Bexel's investments in high definition digital cameras in recent years began to generate better returns in 2001 as this technology becomes an accepted alternative for traditional filmmakers. Bexel provided equipment and services to three recurring television series, a major feature film and over twenty smaller scale projects. Previously, all of these would have been shot on film and serviced only by specialist rental firms.

	2001	2000
Turnover	£31.3m	£36.8m
Operating profit*	£1.1m	£5.0m
Operating margin	3.5%	13.6%

**before exceptional items and goodwill amortisation*

1 Inside the newly commissioned mobile Editing and Support truck is state of the art equipment which can be available on-site for major live broadcast events.

2 Broadcasting relies on complex connections, frequently involving installing complex fibre networks, often to tight deadlines.

3 Bexel's investment of $0.5 million in character generation units supply the graphics displayed on TV screens at live televised events.

4 Purpose built shipping crates ensure equipment is quickly and efficiently on site and ready for use with the minimum of delay.

5 The Mobile Editing and Support truck custom designed and constructed by Bexel.

Financial review

Turnover The lower volume and mix effects reduced turnover by £17 million, offset by exchange translation gains of £6 million, higher prices of £1 million and contribution from an acquisition of £0.5 million. Approximately 70% of the volume decline occurred in the Communications and audio and Broadcast services divisions. The exchange translation gains arose from the US$, 5% stronger than sterling versus last year, and the Euro currencies which were 2% stronger.

Gross margins Gross profit margins fell from 53.3% to 50.6% reflecting the lower volumes and mix changes. Gross profits were £10.2 million lower than the prior year.

Operating expenses Cost reduction actions reduced these significantly from £36.2 million in the first half to £29.6 million in the second half, making operating expenses for the year £0.7 million lower than 2000. Operating expenses were increased £2.1 million by exchange rates and by a number of costs which would not all normally recur annually: redundancy and termination costs of £0.6 million; relocation and reorganisation costs of £0.5 million and trade debtors written off due to customer bankruptcies of £0.4 million.

Operating profits The effect of favourable exchange translation rates, which increased operating profit by £0.8 million, and the benefits of the cost reduction actions were not sufficient to contain the fall in gross profits. Operating profits fell from £40.1 million to £30.6 million and profit margins were 16% compared to 20% in last year.

Other profit and loss items The sale of a building in Italy produced a profit of £0.8 million. As announced at the Interims, a full impairment provision of £3.7 million has been made against the minority investment in Intersense, the high-tech motion control company, whose profit and cash forecasts were reduced substantially during the year.

Cash flow and net debt Cash generation remained high despite the lower profits, and net debt decreased during the year by £8.5 million to £22.5 million. Cash flow from operations was £42.1 million (2000: £45.8 million), equating to 103p per share (2000: 112p per share). Working capital reduced by £0.5 million during the year. After increasing by £3.7 million in the first half, stocks were reduced by £7.9 million in the second half and at the year end were £4.2 million lower than the prior year. Stock days improved to 130 (2000: 148). Trade debtors were £2.9 million lower than last year with debtor days improving to 51 days (2000: 53 days). However, creditors were also lower largely reflecting reduced stocks and the absence of incentive compensation accruals at 31 December 2001. Capital expenditures were £15.4 million (£14.4 million), of which £7.4 million relates to rental assets and £3.2 million to IT projects, partly financed by the proceeds from higher asset disposals of £2.4 million (2000: £1.6 million).

Treasury policy Financing, financial risk 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. There were no substantial changes during the year.

A portion of the transactions of subsidiaries in foreign currencies are hedged 12 months forward. Forward foreign exchange contracts totalled £30 million (2000: £35 million) at 31 December 2001. Translation of foreign currency profits and interest rates are not normally hedged. Foreign currency net assets are not hedged other than by normal Group borrowings.

Financing activities The average cost of borrowing for the year was 6.1% (2000: 6.9%). Net interest cover remained high at 12 times (2000: 14 times) despite the lower profits. All of the Group's committed facilities expire in October 2002. We have already commenced renegotiation with our banks and do not currently anticipate any major issues.

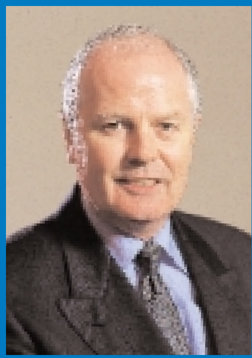
Euro Our operating companies in continental Europe successfully converted to full Euro-based accounting with effect from 1 January 2002.

Richard Green
Finance director

Directors and advisors

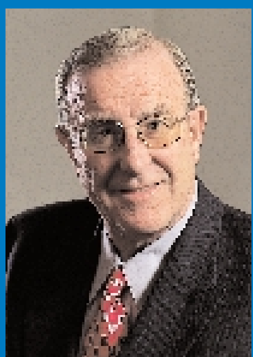
Alison Carnwath
BA, ACA
Chairman, non-executive*, independent*, British, aged 49, appointed to the Board on 22 January 1996; member of the Audit committee, the Remuneration committee and Chairman of the Nominations committee. Currently a non-executive director of Arcadia Group plc, Glas Cymru plc, Nationwide Building Society plc, Man Group plc and QA Group plc.

Gareth Rhys Williams
BSc, MBA
Chief executive, British, aged 40, 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 custom film coating business, and for NFI Electronics.

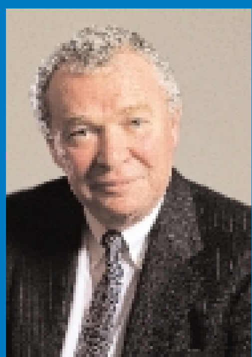


Richard Green
BSc, FCA, CPA
Finance director, British, aged 52, appointed to the Board on 2 March 1992. Previously Director of Financial Planning at The Morgan Crucible Company PLC, where he was responsible for M&A work. Prior to this he held various group and operating company senior financial positions in the oil and gas industry in the USA and South East Asia.

David Bell
MA
Non-executive, independent, British, aged 55, appointed to the Board on 12 March 1997; the senior non-executive director; member of the Audit committee, the Nominations committee and Chairman of the Remuneration committee. Currently, Chairman of the Financial Times Group, a director of Pearson plc, non-executive Chairman of the Windmill Partnership, non-executive director of Zen Research and Chairman of Common Purpose Europe.



John Potter
CEng, MIEE, AMBIM
Non-executive, independent, British, aged 58, appointed to the Board on 1 February 1999; Chairman of the Audit committee and member of the Nominations committee and Remuneration committee. Formerly a director of the TI Group plc until his retirement at the end of 1998. Currently President and Chief Executive Officer of Oxford Automotive, Inc.



Michael Stacey
BSc, FRAeS
Non-executive, independent, British, aged 63, appointed to the Board on 1 February 1999; member of the Audit committee, the Nominations committee and the Remuneration committee. Currently Chairman of Meggitt PLC and McKechnie Group, and a non-executive director of Marshalls plc.

Secretary
Roland Peate FCIS, ACMA

Group Head Office
One Wheatfield Way
Kingston upon Thames
Surrey KT1 2TU
United Kingdom
Tel: +44(0)20 8939 4650
Fax: +44(0)20 8939 4680
Email: info@vitecgroup.com

Registered office
Western Way
Bury St Edmunds
Suffolk IP33 3TB
United Kingdom

Registered in England
No. 227691

Advisors

Stockbrokers
UBS Warburg

Auditors
KPMG Audit Plc

Bankers
HSBC
The Royal Bank of Scotland plc
Wachovia Bank NA

Financial advisors
UBS Warburg

Marketmakers in Company shares
HSBC Securities
Merrill Lynch International
UBS Warburg

Registrar and transfer agent
Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom
Tel: 0870 162 3100 (UK only)
+44 (0) 20 8639 2157 (Overseas only)

* For a period during 2001 Mrs Carnwath temporarily held an executive role.
See The Board section in the Corporate governance statement on pages 26 to 28.

Directors' report

The directors submit their report and the audited accounts of the Group for the year ended 31 December 2001.

Review of the Group and its activities

On 17 April 2001 the Company changed its name from Vitec Group plc to The Vitec Group plc. The performance and activities of the Group during the year are set out in the Chairman's statement and the Chief executive's review on pages 2 and 3 and in the Financial review on page 16.

Results and dividends

Group profit on ordinary activities before taxation amounted to £24.2 million (2000: £34.7 million).

The directors recommend a final dividend of 16.6p per share (2000: 15.6p). If approved, the dividend per share for the year will total 22.7p (2000: 21.2p) an increase of 7.1% over 2000. Subject to approval by shareholders, the final dividend will be paid on 23 May 2002 to shareholders on the register on 26 April 2002.

Post balance sheet events

On 14 February 2002, a subsidiary of the group purchased the trade, assets and certain liabilities of Aspen Electronics Inc for a cash consideration of US$2.2 million, subject to final adjustment on verification of the net assets acquired. The company will be reported within Broadcast camera systems.

Future development

The Group's 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 and development

The management of the Group recognises that new products are essential to its long-term success and considerable emphasis is placed on active product development programmes in the manufacturing companies. In 2001 those companies spent £7.6 million (2000: £7.5 million) on research and development.

Share capital

Details of shares issued during the year are set out in note 20 to the accounts on page 53. An analysis of shareholdings is shown on the inside back cover. The middle market price of a share of the Company on 31 December 2001, the last day of dealing in 2001, together with the range during the year is also set out on the inside back cover.

Substantial shareholdings

As at 22 February 2002, the Company had been notified of the following interests of 3% or more of its issued share capital:

Prudential plc	4,966,983	12.12%
Baring Trustees (Guernsey) Ltd	2,698,374	6.58%
Manfrotto SA	2,478,374	6.05%
CGNU PLC	2,169,740	5.29%
Legal & General Investment Management Limited	1,628,161	3.97%

Directors

The directors during the year were Alison Carnwath (Chairman), David Bell, Philip Cushing, Richard Green, Lino Manfrotto, John Potter, Gareth Rhys Williams and Michael Stacey.

Philip Cushing resigned as a director and the Chief executive on 22 July 2001. Lino Manfrotto retired as a non-executive director on 8 August 2001. Gareth Rhys Williams was appointed a director and the Chief executive on 23 November 2001. The other directors were directors for the whole of the year.

Photographs and biographies of the current directors are set out on page 17.

Directors' remuneration

The members of the Remuneration committee are shown in the section on Corporate governance on pages 26 to 28 and on page 17 in the individual biographies.

Director's name	Salaries and fees 2001 £	Salaries and fees 2000 £	Benefits* 2001 £	Benefits* 2000 £	Performance related annual bonus 2001 £	Performance related annual bonus 2000 £	Pension related bonus 2001 £	Pension related bonus 2000 £	Total 2001 £	Total 2000 £
Chairman										
Alison Carnwath	**175,000**	80,000	**280**	209	**–**	–	**–**	–	**175,280**	80,209
Executive directors										
Philip Cushing	**165,217**	191,155	**4,857**	7,830	**–**	93,238	**–**	–	**170,074**	292,223
Richard Green	**162,000**	150,000	**12,137**	13,896	**–**	56,250	**19,116**	17,100	**193,253**	237,246
Gareth Rhys Williams	**31,943**	–	**632**	–	**–**	–	**2,622**	–	**35,197**	–
Non-executive directors										
David Bell	**22,500**	19,500	**–**	–	**–**	–	**–**	–	**22,500**	19,500
Lino Manfrotto	**12,000**	–	**–**	–	**–**	–	**–**	–	**12,000**	–
John Potter	**22,500**	26,250	**–**	–	**–**	–	**–**	–	**22,500**	26,250
Michael Stacey	**20,000**	19,500	**–**	–	**–**	–	**–**	–	**20,000**	19,500
	611,160	486,405	**17,906**	21,935	**–**	149,488	**21,738**	17,100	**650,804**	674,928

*The principal benefits are a company car, fuel, medical insurance and life assurance premiums.

During the year the highest paid director earned £193,253 (2000: £292,223).

During the period from Philip Cushing's resignation until the completion of the handover to the new Chief executive, Alison Carnwath assumed a part-time executive role whilst retaining her non-executive responsibilities as Chairman. In recognition of this, she was paid £100,000 in addition to her remuneration as non-executive Chairman.

Philip Cushing's salary and benefits are for the period commencing 1 January 2001 up to 22 July 2001, being the date of his resignation. Mr Cushing's salary includes payment in lieu of a company car for the period 1 April 2001 to 22 July 2001 inclusive. In addition to the above, a termination payment of £323,928, £2,000 of which was paid direct to his legal advisers in respect of advice he received in connection with the negotiation of his termination arrangements, was made in respect of Philip Cushing's salary and benefits and £71,840 was paid into Mr Cushing's FURBS. These payments were made in accordance with his contract of employment. No bonus was paid to Mr Cushing in respect of his period of employment during 2001.

Payments to Malcolm Baggott (former Chief executive) in the previous year in connection with his retirement totalled £476,152. As disclosed in the Directors' report for 2000, this payment comprised £166,152 in respect of salary and benefits for his period of employment from 29 April 2000 to 31 December 2000 and the sum of £310,000 paid into the Vitec Group Executive Pension Scheme to fund enhanced benefits payable to him as a result of his early retirement.

Gareth Rhys Williams' salary, which includes payment in lieu of a company car, and benefits are for the period from the date of his appointment, 23 November 2001, up to 31 December 2001. Mr Rhys Williams received no bonus for the year to 31 December 2001 but for the year 2002 is eligible for a bonus of up to 100% of base salary, 50% of which is conditional upon the Group's performance and 50% is based on personal performance targets. For the year 2002 only, Mr Rhys Williams will be guaranteed a minimum bonus of 25% of his base salary.

Richard Green's performance related bonus scheme again comprised two elements, based on the Group's headline earnings per share and on personal performance, with a maximum bonus payable of 50% of base salary.

David Bell's and John Potter's remuneration includes £2,500 each for chairmanship of the Remuneration committee and of the Audit committee respectively. Lino Manfrotto's fee is for the period commencing 1 January 2001 up to his retirement on 8 August 2001.

Pensions related remuneration

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

Executive directors	Accrued pension at 31 December 2001 £	2000 £	Increase in accrued pension (in excess of price inflation) during 2001 £	2000 £	Member contributions towards pension 2001 £	2000 £	Transfer value of the increase in accrued pension net of member contributions 2001 £	2000 £
Philip Cushing	2,981	1,530	1,401	1,530	–	–	17,310	21,340
Richard Green	23,453	20,273	2,511	2,335	11,130	10,290	22,220	24,980
Gareth Rhys Williams	199	n/a	199	n/a	557	n/a	920	n/a

Beyond the earnings cap, the cost of pensions comprised defined contribution payments to funded unapproved retirement benefit schemes (FURBS) as follows:

Philip Cushing £23,947 (for the period up to his resignation) (2000: £47,460), Richard Green £28,674 (2000: £25,650). A FURBS is currently being arranged for Gareth Rhys Williams and the contributions by the Company, of £3,945 for the period 23 November 2001 to 31 December 2001, has been paid, as an interim measure, into a separate interest bearing account pending finalisation of the documentation, at which time it will be transferred into Mr Rhys Williams' FURBS.

Directors' interests

The following tables set out the beneficial interests of those persons who were directors at the end of the financial year. The interests in the Company's shares and share options are shown as at 31 December 2001 and 1 January 2001.

Directors' shareholdings

	31 December 2001	1 January 2001 or subsequent date of appointment
Alison Carnwath	5,000	5,000
David Bell	–	–
Richard Green	15,796	10,796
John Potter	3,000	3,000
Gareth Rhys Williams	10,000	–
Michael Stacey	3,000	3,000
	36,796	21,796

Directors' share options

	Date of grant	At 1 January 2001	Options exercised or lapsed during year	Options granted during year	At 31 December 2001 or date of resignation as a director	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
		Number of shares							
Richard Green									
Executive share options	April 1992	25,000	–	–	25,000	268	–	April 1995	April 2002
	April 1995	7,000	–	–	7,000	512	–	April 1998	April 2005
	Oct 1996	27,305	–	–	27,305	694	–	Oct 1999	Oct 2006
	April 1998	14,344	–	–	14,344	653	–	April 2001	April 2008
SAYE options	June 2000	4,095	–	–	4,095	412	–	Sep 2005	Feb 2006
Premium priced options	Oct 2000	27,452	–	–	27,452	683	–	Oct 2003	Oct 2010
	Oct 2000	32,051	–	–	32,051	819	–	Oct 2003	Oct 2010
		137,247	–	–	137,247				
Philip Cushing									
Premium priced options	May 2000	75,000	–	–	75,000	661	–	May 2003	May 2010
	May 2000	100,000	–	–	100,000	793	–	May 2003	May 2010
		175,000	–	–	175,000				

During the current and preceding financial years no directors exercised share options. No non-executive directors held share options.

Directors' awards under the Long term incentive plan

	Date of award	At 1 January 2001	Shares exercised or lapsed during the year	Shares awarded during the year	At 31 December 2001 or date of resignation as a director
		Number of shares			
Richard Green	Dec 1999	14,004	–	–	14,004
	Oct 2000	1,996	–	–	1,996
	Apr 2001	–	–	17,143	17,143
		16,000	–	17,143	33,143
Philip Cushing	Apr 2000	22,321	–	–	22,321
	Apr 2001	–	–	43,651	43,651
		22,321	–	43,651	65,972

Directors' awards under the Deferred bonus plan

	Date of award	At 1 January 2001	Number of shares: Shares exercised or lapsed during the year or earlier date of resignation	Basic award during the year	Matching award during the year	Total at 31 December 2001 or date of resignation as a director
Richard Green	Apr 2001	–	–	5,769	5,769	11,538
Philip Cushing	Apr 2001	–	–	5,285	9,562	14,847

In November 2001 a share price related cash bonus scheme was adopted under which an award equivalent to an option over 142,857 shares at a price of 350p per share was made to Gareth Rhys Williams. The rules of this cash bonus scheme mirror, as closely as possible, those of the (1996) Unapproved Executive Share Option Scheme.

Incentive arrangements

The Company has recently reviewed its approved and unapproved share option schemes and revised rules have been drafted to incorporate best practice and the Association of British Insurers' latest guidelines. The new schemes, which will be considered by shareholders at the 2002 annual general meeting, comprise an Inland Revenue approved plan and an unapproved plan, of which the latter will replace both the (1996) Unapproved Executive Share Option Scheme and the (2001) Unapproved Executive Share Option Scheme, that was adopted during the year as a short-term measure, under which only existing shares may be used to satisfy option exercises and in which directors are not entitled to participate. In addition, the Group's UK and overseas savings related share option plans expire at the end of their 10-year life in May 2002 and replacement plans will also be submitted to shareholders for consideration at the 2002 annual general meeting.

The following describes the Group's current incentive arrangements.

(1984) Executive share option scheme (the '1984 Scheme'). Executive directors and other senior employees are selected to receive options over shares. The exercise of options under the 1984 Scheme is not subject to any performance condition. Subject to the share price reaching the required threshold, options are exercisable between the third and the tenth anniversaries of their dates of grant.

(1994) Executive share option scheme (the '1994 Scheme'). Executive directors and other senior employees are selected to receive options over shares. Under the 1994 Scheme exercise is subject to the growth in earnings per share, excluding exceptional or extraordinary items, exceeding the growth in the retail prices index between the date of the last published balance sheet of the Company prior to the date of grant of an option and the date of the last published balance sheet of the Company prior to the exercise of an option. Options are exercisable between the third and the tenth anniversaries of their dates of grant.

(1996) Unapproved executive share option scheme (the '1996 Scheme'). Executive directors and other senior employees are selected to receive options over shares. Under the 1996 Scheme exercise is subject to an increase in earnings per share, excluding exceptional or extraordinary items, calculated by reference to three consecutive published annual accounts of the Company of 3% or more over the retail prices index. Options are exercisable between the third and the tenth anniversaries of their dates of grant.

(2001) Unapproved executive share option scheme (the '2001 Scheme'). Senior employees are selected to receive options over shares. Directors of The Vitec Group plc are not entitled to participate. Under the 2001 Scheme exercise is subject to the increase in earnings per share, excluding exceptional or extraordinary items, calculated by reference to any three consecutive balance sheets of the Company published in its annual accounts, commencing with the last such published balance sheet of the Company prior to the date of grant or any such subsequent balance sheet, exceeding the increase in the retail prices index over the same period by 3% or more. Options are exercisable between the third and the tenth anniversaries of their dates of grant. Only existing shares may be used to satisfy option exercises under the 2001 Scheme.

Long term incentive plan ('LTIP'). Executive directors and other senior employees receive awards over shares that vest in whole or in part depending on the satisfaction of a performance condition. The performance condition of awards under the LTIP relates to increases in earnings per share, to align them more closely with the objectives and interests of shareholders.

Consequently, under the performance condition, for an award to vest in its entirety, the increase in earnings per share over the performance period of 3 years must be not less than the increase in the retail prices index plus 36%. For an award to vest at its lowest level of 25%, the increase in earnings per share over that performance period must be equal to, or greater than, the increase in the retail prices index plus 9%. Awards lapse if the performance is less than the minimum threshold set out above.

Premium option plan ('POP'). Under the POP, selected executive directors and other senior employees receive options over shares that are granted in the form of two tiers. The exercise price of the first tier is set at 25% in excess of the share price immediately prior to the date of grant; the exercise price of the second tier is set at 50% in excess of that same share price. The two tiers are only exercisable if the average middle market price of the Company's shares is in excess of the option exercise price within the relevant period for a minimum of 20 consecutive dealing days. Each tier of options lapses if the share price does not achieve the required threshold within the relevant period. Subject to the share price reaching the required threshold, options are exercisable between the third and the tenth anniversaries of their dates of grant.

Deferred bonus plan ('DBP'). Under the DBP, an eligible executive may defer between 10% and 50% of his cash bonus, that was itself subject to performance targets linked to Group and individual performance, in return for receiving a matching award over shares in the Company with a value equivalent to the amount of the deferred bonus. Shares in the Company are purchased using the deferred bonus and held in trust. In normal circumstances, the shares held in trust may be exercised after 2 years. However, if exercise is deferred until after 3 years and the executive remains employed by the Group, the participant is entitled to receive the additional shares equal in number to those comprised in the matching award. The first awards under the DBP were granted in April 2001 in respect of bonuses for the year 2000.

In addition to the above arrangements, the Group operates a savings related share option scheme in the UK and similar plans covering France, Germany, Italy and the USA.

Executive directors are entitled to participate in the Company's savings related and executive share option schemes (except the 2001 Scheme), the Long term incentive plan, the Premium option plan and the Deferred bonus plan. Grants under the Company's incentive arrangements are phased. No executive option is offered at a discount.

Payments to suppliers

It is the Group's current policy that individual subsidiary companies are responsible for negotiating the terms and conditions of trade under which suppliers are asked to operate. Once agreed, payments to suppliers are made in accordance with those terms and conditions, subject always to the supplier having complied with the terms and conditions. That policy will continue for the financial year ending 31 December 2002. For the financial year to 31 December 2001 the Company paid its suppliers on average within 22 days of date of invoice.

Employees and employee communication

Vitec recognises the importance of involvement, motivation and development of our employees at all levels to enable us to make the Group even more market aware and customer focused.

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

Encouragement is given to all employees both in the UK and overseas to participate in the Group's savings related share option schemes under which options are granted to employees who enter into contracts to save agreed amounts each month.

Ability and aptitude are the determining factors in the selection, training, career development and promotion of all employees. If an employee becomes disabled during his or her period of employment, we will, if necessary and to the extent possible, adapt the employee's work environment to enable him to continue in his current position or retrain the employee for duties suited to that employee's abilities following the 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.

The importance of good communication and working relationships is recognised and actively encouraged. The Group's website provides enhanced communications and information exchange capabilities for shareholders and employees.

Our policy is to keep employees informed on matters relating to their employment and on financial and economic factors affecting the Group. This enables our employees to gain a better understanding of our business objectives and their roles in achieving them. Building and developing the skills, competencies, motivation and teamwork of our people is key to achieving our business objectives and to ensuring best practices throughout the Group.

The Group continues to be organised on a decentralised basis. The senior executives of the Group, including the Chief executive and the Finance director, meet on a regular basis. In addition, the managements of the operating subsidiaries employ a wide variety of consultation methods, including joint committees, project and briefing groups.

Environmental policy

The Group's operations have limited environmental impact. However, we have a responsibility to understand any impact that our activities do have at a local, national and global level. These are monitored and assessed on an ongoing basis and we seek solutions to any environmental problems by reviewing best practice and adopting sound policies.

The Group regards compliance with environmental laws and guidelines as important and socially responsible. The head of each of the Group's operations is responsible for complying with the relevant environmental regulations in all the geographical areas in which they operate. Each of the Group's operations report on and take account of environmental issues as part of the Group's system of internal control and risk management that is regularly reviewed by the Board.

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

It is in the interest 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. This includes the use of energy saving lightbulbs, electronic timers to control the use of energy efficient heating and airconditioning systems, the preference for the use of low emission or lead free petrol in our vehicles, waste minimisation and the recycling of paper and toner and laser cartridges, the use of recycled stationery products where possible and the encouragement to staff to recycle consumer packaging such as bottles and aluminium cans and to our cleaning contractors to use environmentally friendly products. Used stamps are collected for the Royal National Institute for the Blind. A greater use of video and telephone conferencing has also reduced the need for travel and the increasing use of electronic mail has reduced the use of paper.

Particular improvements during the year include the following:

Drake employs reusable packaging for its higher volume products. This packaging is used to protect products whilst they are being moved around the factory and has also enabled them to reduce their use of non-reusable products.

In the last 12 months, Manfrotto has eliminated all electrical transformers containing polychlorinated biphenyls (PCB) and has removed any potentially harmful building materials from the majority of its facilities. Italian law lays down guidelines to ensure that the impact of waste on the environment is minimised. Manfrotto's waste management is carried out in accordance with these guidelines. Emissions into the atmosphere, such as dust and vapours etc, are constantly monitored and regulated to ensure they remain below the relevant pollution thresholds.

Vinten has also made various dust and vapour extraction improvements to their facilities and further enhancements are scheduled.

Donations

During the year, donations totalling £400 were made to the Alzheimer's Society and The Cancer Research Campaign and a donation of US$100,000 (equivalent to £68,885) was made to the Twin Towers Fund following the tragedy on 11 September 2001. Charitable donations in 2000 totalled £38,789. No donations were made to any political party.

Annual general meeting

The annual general meeting for 2002 will be held on Wednesday 17 April 2002 at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB. The notice of meeting and a proxy card are enclosed. The business will include the consideration by shareholders of the report and accounts for the year ended 31 December 2001, the proposed dividend, re-election of directors and election of a director and the re-election of auditors in addition to the following further items of business.

Resolutions dealing with the adoption of four new share option schemes will be proposed. The new schemes will be the 2002 Approved share option plan, the 2002 Unapproved share option plan, the 2002 Sharesave scheme and the 2002 International sharesave plan.

A resolution renewing the directors' authority to allot shares for cash, as if the pre-emption provisions of Section 89 of the Companies Act 1985 did not apply, is set out in the notice of meeting. The first part of the resolution deals with the allotment of shares for cash under a rights issue, giving power to make adjustments to deal with overseas shareholders, fractions of shares and similar matters. The second part renews the power of the directors to allot shares for cash, limited to 5% of the issued share capital at 25 February 2002. The authority will expire at the end of the Company's next annual general meeting or, if earlier, on 17 July 2003. Your directors have no present intention of issuing or granting rights over the unissued share capital, except in relation to the Company's adopted employee share incentive arrangements and no share issue will be made which will effectively alter the control of the Company without prior approval of the shareholders in general meeting.

A resolution for a general authority for the Company to make market purchases of its own shares was renewed by shareholders at the last 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.

Auditors

The auditors, KPMG Audit Plc, are willing to continue in office. A resolution will be put to the annual general meeting to re-appoint them as auditors and to authorise the Board to agree their remuneration.

By order of the Board

Roland Peate
Secretary
25 February 2002

Corporate governance

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

Statement of compliance

The Board considers that it has complied with the Code throughout the year ended 31 December 2001 with the exception of the Code provisions with which non-compliance is included in the report below. Where non-compliance is reported (Code provisions B.1.7, B.2.1 and D.3.1), the reason for such non-compliance is set out in the relevant section below. References in parentheses are to the relevant paragraphs of the Code. The Company regularly reviews and revises its procedures, as necessary, to take account of the requirements of the Code.

The Board

The Board meets regularly 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. The Board comprised five non-executive directors until Lino Manfrotto's retirement on 8 August 2001. From that date, and for the remainder of the year, there were four non-executive directors. Richard Green has been an executive director throughout the year. The other executive directors during the year have been Philip Cushing, until his resignation on 22 July 2001 and Gareth Rhys Williams, who was appointed on 23 November 2001. During the period from Philip Cushing's resignation until the completion of the handover to the new Chief executive, Alison Carnwath assumed a part-time executive role whilst retaining her non-executive responsibilities as Chairman. Consequently, Alison Carnwath, who was a member of the Remuneration committee, was independent for only part of the year (B.2.1). Furthermore, during the period whilst she also had her part-time executive role, she retained her position on the Audit committee (D.3.1).

The directors bring independent judgement to bear on strategic matters, the performance of the Group and the adequacy of resources and standards of conduct. The roles of the Chairman and the Chief executive are separate, although Alison Carnwath assumed some of the Chief executive's duties for part of the year, see above. The senior non-executive director is David Bell and his biographical details are shown on page 17.

The Board has an Audit committee, a Nominations committee and a Remuneration committee. Each committee has formal terms of reference. The members of these committees are shown on page 17.

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

The papers supplied for consideration by the Board are provided on a timely basis and include budgets, strategy papers, reviews of the Group's financial position and operating performance and annual and interim reports and accounts.

Appointments and re-elections to the Board

A Nominations committee chaired by Alison Carnwath, Chairman of the Board, makes recommendations to the Board on all new Board appointments. During the year, up to the dates of their resignation or retirement, Philip Cushing and Lino Manfrotto, respectively, were members of the Remuneration committee. The Chairman and the non-executive directors are normally appointed for an initial period of three years which usually, with the approval of the Nominations committee and the Board, would be extended for a further three years. In exceptional circumstances, appointments of non-executive directors may be extended beyond six years, with the approval of the Nominations committee and the Board, if it is in the interests of the Group to do so.

Under the Company's articles of association, each director is required to be re-elected at the third annual general meeting following that at which he or she was last elected or re-elected. Alison Carnwath, John Potter and Michael Stacey will retire and will be proposed for re-election at the annual general meeting to be held in 2002. Alison Carnwath has completed six years as a non-executive director, of which she has been Chairman for three years. The Nominations committee and the Board consider it is in the interests of the Group for her to continue as a director and the Chairman but the appointment will be reviewed periodically. In addition, Gareth Rhys Williams will stand for election, having been appointed a director since the last annual general meeting.

Remuneration committee
Remuneration packages are formulated to attract, retain and motivate executive directors and senior executives of the quality required, without being excessive. They take into account the responsibilities involved, remuneration packages in comparable companies, relative performance and both internal and external advice. Remuneration and benefits reflect responsibility and market comparisons. Basic salary is fully pensioned on a funded basis.

The Remuneration committee, comprising David Bell (Chairman) and the other independent non-executive directors, together with Alison Carnwath (B.2.1), makes recommendations to the Board, within agreed terms of reference, on the framework of executive remuneration including terms of service, pay structure, incentive arrangements and benefits. The Committee, on behalf of the Board, determines the remuneration packages of the executive directors, including pension rights and would also determine any compensation payments in relation to those directors. The Board itself determines the remuneration of the non-executive directors.

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

The Chairman of the Committee, will be available to answer questions about directors' remuneration at the Company's annual general meeting.

Directors' remuneration
Details of the directors' remuneration policy and the disclosures required by the Code are set out below and in the Directors' report on pages 18 to 25.

Richard Green has a service contract requiring 18 months' notice of termination (B.1.7). His service contract has been in place for a number of years and the Remuneration committee believes the notice period under the contract remains appropriate. Gareth Rhys Williams, Chief executive, has a service contract requiring 12 months' notice of termination by the Company. Neither of the executive directors' service contracts provides for pre-determined amounts of compensation in the event of early termination by the Company. The Committee's policy in the event of termination is to mitigate compensation to the fullest extent practicable.

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 year-end results and, when appropriate, at other times during the year. The directors also meet with shareholders at the Company's annual general meeting.

At meetings of shareholders, the level of proxy votes received in respect of resolutions is stated after each resolution has been dealt with on a show of hands. Separate resolutions are proposed for each issue upon which shareholders are asked to vote.

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

Internal control
The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss (principle D.2).

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

- Operating company management is charged with the ongoing responsibility for identifying risks facing each of the businesses and for putting in place procedures to monitor and manage risks.

- The responsibilities of the Chief executive officer and Chief financial officer at each operating unit to manage risks within their businesses are periodically reinforced by Group executive management.
- Major commercial, technological and financial risks are formally assessed during the annual long-term business planning process around mid-year. These plans and the attendant risks are reviewed by the Board.
- Large capital projects, product development projects and acquisitions require Board approval.
- The process by which the Board reviews the effectiveness of internal control has been agreed by the Board and documented. This involves bi-annual reviews by the Board, of the major business risks of the Group together with the controls in place to manage those risks as reported to the Board by the Chief executives of each division. In addition, at the end of each year, individual operating units formally review all of their business risks and mitigating controls and 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 Group finance director. The risk and control identification and certification process is monitored and periodically reviewed by Group financial management.
- The Board has established a control framework within which the Group operates. This contains the following key elements:
  - organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements.
  - defined expenditure authorisation levels.
  - on-site and video 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 quarterly budgets. Forecasts are revised where necessary but at least once every quarter. Any significant changes and adverse variances are questioned by the Group executive directors and remedial action is taken where appropriate. Group tax and treasury is co-ordinated centrally. There is weekly cash and treasury reporting to Group financial management and periodic reporting to the Board on the Group's tax and treasury position.

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

The Group does not have an internal audit function. However, the Board periodically reviews the need for such a function (provision D.2.2). The current conclusion of the Board is that this is not necessary given the scale, diversity and complexity of the Group's activities. Operational audits are outsourced on an as-needed basis.

Going concern

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

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of The Vitec Group plc

We have audited the financial statements on pages 31 to 59.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 29, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on page 26 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants

Registered Auditor
London

25 February 2002

Consolidated profit and loss account

For the year ended 31 December 2001

	Notes	2001 Before exceptional items and goodwill amortisation £m	2001 Exceptional items £m	2001 Goodwill amortisation £m	2001 Total £m	2000 Total £m
Turnover	3	**190.4**	**–**	**–**	**190.4**	200.0
Cost of sales		**(94.0)**	**–**	**–**	**(94.0)**	(93.4)
Gross profit		**96.4**	**–**	**–**	**96.4**	106.6
Net operating expenses	4	**(65.8)**	**–**	**(0.9)**	**(66.7)**	(69.0)*
Operating profit	6	**30.6**	**–**	**(0.9)**	**29.7**	37.6
Profit on sale of fixed assets	5	**–**	**0.8**	**–**	**0.8**	–
Amounts written off investments	5	**–**	**(3.7)**	**–**	**(3.7)**	–
Profit on ordinary activities before interest		**30.6**	**(2.9)**	**(0.9)**	**26.8**	37.6
Net interest payable	22	**(2.6)**	**–**	**–**	**(2.6)**	(2.9)
Profit on ordinary activities before tax		**28.0**	**(2.9)**	**(0.9)**	**24.2**	34.7
Tax	9	**(9.0)**	**(0.3)**	**–**	**(9.3)**	(11.5)
Profit on ordinary activities after tax and for the financial year		**19.0**	**(3.2)**	**(0.9)**	**14.9**	23.2
Dividends	10				**(9.3)**	(8.7)
Retained profit for the year transferred to reserves	21				**5.6**	14.5
Basic earnings per share	11				**36.4p**	56.7p
Diluted earnings per share	11				**36.3p**	56.4p
Headline earnings per share	11				**46.4p**	62.8p

*Net operating expenses during the year ended 31 December 2000 included £1.9 million of exceptional items (note 5) and £0.6 million of goodwill amortisation

Balance sheets

As at 31 December 2001

	Notes	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Intangible assets	12	**10.8**	10.9	**–**	–
Tangible assets	13	**48.5**	47.0	**2.3**	2.4
Investments	14	**–**	3.5	**129.0**	127.1
		59.3	61.4	**131.3**	129.5
Current assets					
Stocks	15	**33.6**	37.8	**–**	–
Debtors	16	**34.3**	38.0	**3.5**	5.1
Cash at bank and in hand	22	**17.8**	19.2	**8.2**	2.3
		85.7	95.0	**11.7**	7.4
Creditors – due within one year	17	**(64.8)**	(38.6)	**(50.8)**	(23.0)
Net current assets/(liabilities)		**20.9**	56.4	**(39.1)**	(15.6)
Total assets less current liabilities		**80.2**	117.8	**92.2**	113.9
Creditors – due after more than one year	17	**(4.5)**	(46.6)	**(1.5)**	(40.8)
Provisions for liabilities and charges	19	**(6.3)**	(7.5)	**(0.1)**	(0.1)
Net assets		**69.4**	63.7	**90.6**	73.0
Capital and reserves					
Called up share capital	20	**8.2**	8.2	**8.2**	8.2
Share premium account	21	**2.5**	2.4	**2.5**	2.4
Capital redemption reserve	21	**1.6**	1.6	**1.6**	1.6
Revaluation reserve	21	**1.5**	1.5	**0.9**	0.9
Other reserves	21	**–**	–	**53.7**	53.7
Profit and loss account	21	**55.6**	50.0	**23.7**	6.2
Shareholders' funds - equity		**69.4**	63.7	**90.6**	73.0

Approved by the Board on 25 February 2002 and signed on its behalf.

Richard Green
Director

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2001

	2001 **£m**	2000 £m
Profit for the financial year	**14.9**	23.2
Exchange rate movements on foreign net investments	**0.3**	4.3
Tax on exchange differences	**(0.3)**	0.6
Total recognised gains and losses relating to the year	**14.9**	28.1

Reconciliation of movements in shareholders' funds

For the year ended 31 December 2001

	2001 **£m**	2000 £m
Profit for the financial year	**14.9**	23.2
Dividends	**(9.3)**	(8.7)
Retained profit for the year	**5.6**	14.5
Exchange rate movements and related tax on foreign net investments	**–**	4.9
New share capital subscribed	**0.1**	0.1
Net increase in shareholders' funds	**5.7**	19.5
Opening shareholders' funds	**63.7**	44.2
Closing shareholders' funds	**69.4**	63.7

Consolidated cash flow statement

For the year ended 31 December 2001

	Notes	2001 £m	2000 £m
Net cash inflow from operating activities	6	**42.1**	45.8
Returns on investments and servicing of finance			
Interest received		**0.8**	0.8
Interest paid		**(3.5)**	(3.8)
Net cash outflow from returns on investments and servicing of finance		**(2.7)**	(3.0)
Tax paid		**(8.4)**	(12.4)
Capital expenditure			
Purchase of tangible fixed assets		**(15.4)**	(14.4)
Sale of tangible fixed assets		**2.4**	1.6
Purchase of fixed asset investments		**–**	(3.5)
Net cash outflow from capital expenditure		**(13.0)**	(16.3)
Acquisitions			
Purchase of subsidiary undertakings		**(0.3)**	(7.1)
Equity dividends paid		**(8.9)**	(9.9)
Net cash inflow/(outflow) before financing		**8.8**	(2.9)
Financing			
Issue of shares		**0.1**	0.1
Net repayment of loans	22	**(10.1)**	(11.0)
Net cash outflow from financing		**(10.0)**	(10.9)
Decrease in cash in the year	22	**(1.2)**	(13.8)

1 Basis of presentation

The consolidated profit and loss account and balance sheets include the accounts of the Company and its subsidiary undertakings made up to 31 December 2001. The accounts have been prepared in accordance with all applicable accounting standards under the historical cost convention modified to include the revaluation of certain land and buildings.

Two new accounting standards have become partly effective during the year and have been adopted by the Group. FRS 17 Retirement benefits has been adopted by the Group in respect of its transitional disclosures and FRS 18 Accounting policies has been adopted in full. Neither of these accounting standards has had any significant impact on the results or net assets of the Group.

2 Accounting policies

Basis of consolidation

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

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

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

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

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

Turnover

Represents net sales of products and services to external customers.

Foreign currencies

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

Research and development

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

Investments

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

2 Accounting policies (continued)

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

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

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

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

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

Deferred tax
The charge for tax is based on the profit for the year and takes into account tax deferred because of timing differences between the treatment of certain items for tax and accounting purposes. Provision is made for deferred tax only to the extent that it is considered probable that an actual liability will crystallise. Within any one tax jurisdiction, deferred taxes are only recognised to the extent of deferred tax liabilities arising in that jurisdiction.

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

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

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

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

3 Activity analysis

	Operating profit 2001 £m	Operating profit 2000 £m	Turnover 2001 £m	Turnover 2000 £m	Net assets 2001 £m	Net assets 2000 £m
3.1 Class of business						
Broadcast camera systems	**12.3**	15.2	**65.8**	67.6	**30.2**	34.4
Photographic and retail display	**16.4**	18.0	**75.2**	73.8	**33.4**	31.8
Communications and audio	**0.8**	1.9	**18.1**	21.8	**7.5**	6.0
Broadcast services	**1.1**	5.0	**31.3**	36.8	**21.4**	21.1
	30.6	40.1	**190.4**	200.0	**92.5**	93.3
Exceptional items	**–**	(1.9)	**–**	–	**–**	–
Goodwill amortisation	**(0.9)**	(0.6)	**–**	–	**–**	–
	29.7	37.6	**190.4**	200.0	**92.5**	93.3
Group net liabilities					**(23.1)**	(29.6)
					69.4	63.7

Goodwill amortisation relates to Photographic and retail display - £0.1 million (2000: £0.1 million), Communications and audio - £0.4 million (2000: £0.1 million) and Broadcast services - £0.4 million (2000: £0.4 million).

Group net liabilities include cash, financing and capitalised goodwill.

	Operating profit 2001 £m	Operating profit 2000 £m	Turnover 2001 £m	Turnover 2000 £m	Net assets 20'01 £m	Net assets 2000 £m
3.2 Geographic area						
By origin						
United Kingdom	**0.8**	1.1	**23.1**	28.3	**10.8**	12.6
The rest of Europe	**20.2**	21.9	**72.6**	71.1	**30.4**	29.0
The Americas	**8.9**	16.3	**91.9**	97.6	**49.6**	50.2
Asia and Australasia	**0.7**	0.8	**2.8**	3.0	**1.7**	1.5
	30.6	40.1	**190.4**	200.0	**92.5**	93.3
Exceptional items	**–**	(1.9)	**–**	–	**–**	–
Goodwill amortisation	**(0.9)**	(0.6)	**–**	–	**–**	–
	29.7	37.6	**190.4**	200.0	**92.5**	93.3
Group net liabilities					**(23.1)**	(29.6)
					69.4	63.7

3 Activity analysis (continued)

	Turnover 2001 £m	Turnover 2000 £m
Turnover by destination		
United Kingdom	**9.2**	8.6
The rest of Europe	**48.3**	47.3
The Americas	**105.1**	115.9
Asia and Australasia	**24.6**	25.2
Africa and Middle East	**3.2**	3.0
	190.4	200.0

4 Operating expenses

	2001 £m	2000 £m
Analysis of operating expenses		
Marketing, selling and distribution costs	**35.8**	34.8
Research and development costs	**7.6**	7.5
Administrative expenses		
– exceptional restructuring costs	**–**	1.9
– goodwill amortisation	**0.9**	0.6
– other administrative expenses	**22.4**	24.2
	66.7	69.0

5 Exceptional items

Exceptional items included in profit on ordinary activities before interest are a full impairment provision of £3.7 million against a fixed asset investment (Broadcast camera systems) and £0.8 million profit on the sale of property fixed assets (Photographic and retail display).

Prior year exceptional items included in operating profit were restructuring and relocation costs for the Photographic and retail display (£1.4 million) and Communications and audio (£0.5 million) divisions.

6 Operating profit

	2001 £m	2000 £m
The following items are included in operating profit		
Operating lease rental income on owned broadcast equipment	**19.0**	23.4
Depreciation	**12.3**	11.4
Operating lease rental expense		
Plant, machinery & vehicles	**0.1**	0.1
Property	**4.2**	3.6
Auditors' remuneration		
Audit fees (company £0.1 million)	**0.4**	0.4
Other fees paid to the auditor and its associates	**0.7**	0.8

Fees paid to the auditors for non-audit services comprise £0.6 million for tax and £0.1 million for other work.

Reconciliation of operating profit to net cash flow from operating activities

	2001 £m	2000 £m
Operating profit	**29.7**	37.6
Goodwill amortisation	**0.9**	0.6
Depreciation	**12.3**	11.4
Loss on sale of fixed assets	**0.1**	–
Decrease/(increase) in stock	**4.5**	(7.3)
Decrease/(increase) in debtors	**3.4**	(3.8)
(Decrease)/increase in creditors	**(7.5)**	5.2
(Decrease)/increase in provisions	**(1.3)**	2.1
Net cash inflow from operating activities	**42.1**	45.8

7 Employees

	2001 £m	2000 £m
Aggregate remuneration of all employees during the year		
Wages and salaries	**42.7**	40.1
Employers' social security costs	**6.9**	6.2
Employers' pension costs	**1.8**	1.6
	51.4	47.9

	2001 Number	2000 Number
Average number of employees during the year		
Broadcast camera systems	**497**	505
Photographic and retail display	**638**	631
Communications and audio	**158**	203
Broadcast services	**183**	201
Head office	**14**	12
	1,490	1,552

8 Directors' remuneration

The emoluments, share options, awards under incentive schemes and pension entitlements of the directors are disclosed in the Directors' report on pages 18 to 25.

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

	2001 £m	2000 £m
Fees for non-executive duties	**0.2**	0.1
Remuneration for executive duties	**0.8**	0.5
Performance-related bonuses	**–**	0.2
	1.0	0.8
Pension contributions	**–**	0.4

9 Tax

	2001 £m	2000 £m
UK corporation tax at 30% (2000: 30%)	**(0.2)**	0.2
Tax on exchange differences taken to reserves	**(0.3)**	0.6
Overseas corporate tax	**9.5**	11.4
Deferred tax	**0.2**	(0.6)
Adjustments in respect of prior years	**(0.2)**	(0.1)
Tax on ordinary activities	**9.0**	11.5

Tax on the exceptional items is £0.3 million charge.

Reconciliation of effective tax rate on profit on ordinary activities before exceptional items and goodwill amortisation

The tax charge has been increased/(reduced) by the following major items	2001 %	2000 %
Statutory UK corporation tax rate	**30.0**	30.0
Profits in tax free areas	**(1.6)**	(2.3)
Allowable amortisation of intangible assets	**(5.5)**	(3.5)
Higher overseas tax rates	**7.2**	6.1
Utilisation of tax losses	**(1.0)**	–
Other items	**3.0**	0.6
Effective tax rate	**32.1**	30.9

10 Dividends

	2001 £m	2000 £m
Interim paid of 6.1p per share (2000: 5.6p)	**2.5**	2.3
Final proposed 16.6p per share (2000: 15.6p)	**6.8**	6.4
Total dividends 22.7p per share (2000: 21.2p)	**9.3**	8.7

11 Earnings per ordinary share

The calculation of basic earnings per share is based on profit after tax of £14.9 million (2000: £23.2 million) and on the weighted average number of shares in issue during the year of 40,982,606 (2000: 40,941,665).

Headline earnings per share is presented in order to reflect more appropriately the ongoing earnings performance of the Group. This calculation is based on profit after tax but before exceptional items and amortisation of goodwill. In 2001 this profit was £19.0 million (2000: £25.7 million).

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

	2001 £m	2000 £m	2001 pence	2000 pence
Profit for the financial year	**14.9**	23.2	**36.4**	56.7
Add back: exceptional items	**3.2**	1.9	**7.8**	4.6
Add back: goodwill amortisation	**0.9**	0.6	**2.2**	1.5
Earnings before exceptional items and goodwill amortisation	**19.0**	25.7	**46.4**	62.8

The calculation of diluted earnings per share is based on profit after tax of £14.9 million (2000: £23.2 million). The number of shares used to calculate the diluted earnings per share incorporates the weighted average number of shares in issue of 40,982,606 (2000: 40,941,665) and the number of shares under option of 2,427,624 (2000: 2,468,087), contingently issuable shares from the total of potential long term incentive plan awards of 337,045 (2000: 199,910) and shares issuable under the deferred bonus plan of 42,128 (2000: nil), as adjusted for a weighting factor between the average exercise prices of the share options and the average market price of the Company's shares during 2001. The number of shares used for the calculation is 41,048,425 (2000: 41,069,476).

12 Intangible fixed assets

	Total £m	Development costs £m	Goodwill £m
Cost			
At 1 January 2001	12.3	–	12.3
Currency translation adjustments	0.2	–	0.2
Additions	0.6	0.3	0.3
At 31 December 2001	**13.1**	**0.3**	**12.8**
Amortisation			
At 1 January 2001	1.4	–	1.4
Currency translation adjustments	–	–	–
Charge for the year	0.9	–	0.9
At 31 December 2001	**2.3**	**–**	**2.3**
Net book value			
At 31 December 2001	**10.8**	**0.3**	**10.5**
At 1 January 2001	10.9	–	10.9

Additions of £0.3 million in goodwill represents goodwill arising on the acquisition of the assets of Alu Nordic AB, a Swedish company, on 1 August 2001 by the Photographic and retail display division.

13 Tangible fixed assets

	Total £m	Land and buildings £m	Plant machinery and vehicles £m	Equipment fixtures and fittings £m
Group				
Cost or valuation				
At 1 January 2001	96.4	23.4	58.6	14.4
Currency translation adjustments	(0.3)	(0.4)	0.1	–
Additions	15.4	1.3	10.7	3.4
Disposals	(6.2)	(1.1)	(4.9)	(0.2)
Transfers between categories	–	1.3	0.2	(1.5)
At 31 December 2001	**105.3**	**24.5**	**64.7**	**16.1**
Depreciation				
At 1 January 2001	49.4	6.6	34.6	8.2
Currency translation adjustments	(0.3)	(0.1)	(0.2)	–
Charge for the year	12.3	1.2	9.5	1.6
Disposals	(4.6)	(0.6)	(3.8)	(0.2)
At 31 December 2001	**56.8**	**7.1**	**40.1**	**9.6**
Net book value				
At 31 December 2001	**48.5**	**17.4**	**24.6**	**6.5**
At 1 January 2001	47.0	16.8	24.0	6.2

Plant, machinery and vehicles includes broadcast equipment rental assets with a cost of £31.5 million (2000: £31.1 million) and accumulated depreciation of £14.9 million (2000: £15.3 million).

The fixed assets of the Company, comprising principally of land and buildings, at a cost of £3.3 million (2000: £3.3 million) and with accumulated depreciation of £1.0 million (2000: £0.9 million) are included above. During the year additions at cost were £0.1 million and the depreciation charge was £0.2 million.

13 Tangible fixed assets (continued)

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Net book value of land and buildings at cost or valuation comprise the following				
Carried at cost	**15.6**	14.9	**0.3**	–
Carried at valuation (open market basis - 31.3.1989)	**1.8**	1.9	**1.8**	1.9
	17.4	16.8	**2.1**	1.9
Freehold	**15.9**	15.4	**1.8**	1.9
Short leasehold	**1.5**	1.4	**0.3**	–
	17.4	16.8	**2.1**	1.9

The Group's land and buildings shown above at a re-valued net book value of £1.8 million would have been stated under historical cost at £0.7 million and a net book value of £0.3 million.

The revalued amount of the Group's land and buildings has been retained as allowed for by the transitional provisions set out in FRS 15 Tangible fixed assets.

Capital commitments for which no provision has been made in the accounts amount to £1.1 million (2000: £2.3 million) for the Group and £nil (2000: £nil) for the Company.

14 Fixed asset investments

Investments at cost or written down value are	Total £m	Shares £m	Loans £m
Group			
Cost			
At 1 January 2001	3.5	3.5	–
Currency translation adjustments	0.2	0.2	–
At 31 December 2001	**3.7**	**3.7**	**–**
Provision			
At 1 January 2001	–	–	–
Amounts provided for	(3.7)	(3.7)	–
At 31 December 2001	**(3.7)**	**(3.7)**	**–**
Net book value			
At 31 December 2001	**–**	**–**	**–**
At 1 January 2001	3.5	3.5	–

14 Fixed asset investments (continued)

	Total £m	Shares £m	Loans £m
Company			
At 1 January 2001	127.1	84.6	42.5
Additional loans	1.9	–	1.9
At 31 December 2001	**129.0**	**84.6**	**44.4**

The Group's investment represents a 16% investment in Intersense Inc. Full impairment provision has been made against this investment.

Principal subsidiaries

The Group's principal subsidiaries at 31 December 2001 are listed below.

	Country of incorporation
Vitec Group US Holdings Inc	USA
Vitec Luxembourg Holdings Sarl	Luxembourg
Vitec International Financial Services Company Limited	Ireland
Broadcast camera systems	
Anton/Bauer Inc	USA
Centro de Produccion Profesional CPP Limitada	Costa Rica
LCB Beteiligungs GmbH	Germany
Sachtler Corporation of America	USA
Sachtler GmbH & Co. KG	Germany
Vinten Broadcast Limited	England and Wales*
Vinten Inc	USA
Photographic and retail display	
Alu Inc	USA
Bogen Photo Corporation	USA
Gitzo SA	France
Gruppo Manfrotto Srl	Italy
Communications and audio	
Drake Electronics Limited	England and Wales*
Vitec CC Inc (trading as Clear-Com)	USA
Broadcast services	
Bexel Corporation	USA
Systems Wireless Limited	USA

* Indicates companies directly owned by the parent company

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

15 Stocks

	Group 2001 £m	Group 2000 £m
Raw materials and components	**10.3**	10.2
Work in progress	**8.2**	9.3
Finished goods	**15.1**	18.3
	33.6	37.8

16 Debtors

	Group		Company	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Amounts falling due within one year				
Trade debtors	**26.4**	29.3	**–**	–
Amounts owed by subsidiaries	**–**	–	**1.9**	3.2
Other debtors	**3.2**	3.7	**0.4**	0.6
Tax recoverable	**1.1**	1.2	**1.1**	1.2
Prepayments and accrued income	**1.6**	1.7	**0.1**	0.1
	32.3	35.9	**3.5**	5.1
Amounts falling due after one year				
Prepayments and accrued income	**1.2**	1.3	**–**	–
Other debtors	**0.8**	0.8	**–**	–
	2.0	2.1	**–**	–
Total debtors	**34.3**	38.0	**3.5**	5.1

17 Creditors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year				
Bank loans	32.0	–	32.0	–
Other loans	4.1	4.0	–	–
Payments received on account	0.2	0.6	–	–
Trade creditors	9.6	13.8	–	–
Amounts owed to subsidiaries	–	–	11.2	14.2
Dividends	6.8	6.4	6.8	6.4
Corporation tax	3.3	2.4	–	0.5
Other tax and social security costs	1.4	1.6	0.1	0.1
Other creditors	4.7	5.4	0.2	0.5
Accruals and deferred income	2.7	4.4	0.5	1.3
	64.8	38.6	50.8	23.0
Amounts falling due after more than one year				
Bank loans	–	38.0	–	38.0
Other loans	4.2	8.2	–	–
Loans owed to subsidiaries	–	–	1.5	2.8
Other creditors	0.1	0.2	–	–
Accruals and deferred income	0.2	0.2	–	–
	4.5	46.6	1.5	40.8

18 Financial instruments

An explanation of the Group's treasury policy and controls is included in the Financial review on page 16. Short term debtors and creditors have been omitted from all disclosures other than the currency profile.

a) Financial liabilities

i) Analysis of borrowings

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans	32.0	38.0	32.0	38.0
Senior notes	7.7	11.4	–	–
Other loans	0.6	0.8	–	–
Gross financial liabilities	40.3	50.2	32.0	38.0

ii) Maturity profile

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Within one year or less	36.1	4.0	32.0	–
More than one year but not more than two years	4.2	42.0	–	38.0
More than two years but not more than five years	–	4.2	–	–
	40.3	50.2	32.0	38.0

The total amount of loans any part of which falls due after 5 years is £nil (2000: £nil).

The holding company for the USA subsidiaries issued, in 1993 via a private placement, US$40 million of 6.72% unsecured Senior Notes 2003 guaranteed by the Company. The notes are repayable in equal instalments over 7 years commencing in 1997. Concurrent with the drawdowns under the notes, the Company entered into 10 year US dollar/sterling interest rate swap agreements with banks whereby US$15 million of fixed rate obligations were exchanged for obligations of £10.1 million at interest rates linked to LIBOR. The obligations under the swap agreements amortise in line with the underlying notes.

Certain foreign currency loans in Italy amounting to £0.6 million (2000: £0.8 million) are secured on the land and buildings of subsidiary companies in Italy and are at fixed interest rates of 5.1-5.2%. These loans are repayable in instalments until 2003.

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

	2001 £m	2000 £m
Expiring in one year or less		
- committed facilities	28.0	30.0
- uncommitted facilities	25.0	25.0
More than one year but not more than two years		
- committed facilities	–	7.0
Total	53.0	62.0

18 Financial instruments (continued)

iii) Interest rate profile

Currency	Total £m	Floating rate borrowings £m	Fixed rate borrowings £m	Fixed rate Weighted average interest rate %	Fixed rate Weighted average period at fixed rate Years
Sterling	**34.8**	**34.8**	**–**		
US$	**4.9**	**–**	**4.9**	6.7	2
Euro	**0.6**	**–**	**0.6**	5.1	2
At 31 December 2001	**40.3**	**34.8**	**5.5**		
Sterling	42.3	42.3	–		
US$	7.1	–	7.1	6.7	3
Euro	0.8	–	0.8	5.1	3
At 31 December 2000	50.2	42.3	7.9		

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

b) Financial assets
Interest rate profile

Currency	Floating rate 2001 £m	Floating rate 2000 £m
Sterling	**1.6**	5.0
US $	**4.1**	3.7
Euro	**10.8**	8.9
Other	**1.3**	1.6
	17.8	19.2

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

18 Financial instruments (continued)

c) Fair value of financial assets and liabilities

	Book value £m	Fair value £m
Cash at bank and in hand	17.8	17.8
Floating rate borrowings	(34.8)	(34.8)
Fixed rate borrowings	(5.5)	(5.5)
Swaps	0.0	0.0
At 31 December 2001	**(22.5)**	**(22.5)**
Cash at bank and in hand	19.2	19.2
Floating rate borrowings	(42.3)	(42.3)
Fixed rate borrowings	(7.9)	(7.9)
Swaps	0.0	0.0
At 31 December 2000	(31.0)	(31.0)

Market rates have been used to determine fair values.

d) Foreign exchange hedging

Cost of sales includes net losses of £1.0 million (2000: £4.5 million net losses) arising from the difference between the exchange rates at which foreign currency transactions are converted and the contracted rates on the forward exchange rate contracts set up as hedges against such transactions. When compared with their values at the exchange rates in effect on 31 December 2001, the cumulative, unrecognised aggregate gain on forward exchange rate contracts as of 31 December 2001 is £0.4 million (2000: £0.5 million). All of these unrecognised gains relate to the year 2002. Because these contracts are put in place to hedge a portion of the underlying transactions, any net gain or loss that may arise on these contracts over the forthcoming year will be more than compensated by the corresponding transactional gains or losses.

e) Currency profile

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

	Net foreign currency monetary assets/(liabilities)				
Functional currency of group operation	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Sterling	–	–	0.1	(0.2)	(0.1)
Euro	(0.1)	(0.5)	(0.2)	0.4	(0.4)
At 31 December 2001	**(0.1)**	**(0.5)**	**(0.1)**	**0.2**	**(0.5)**
Sterling	–	0.6	0.9	(0.2)	1.3
Euro	(0.1)	0.9	–	–	0.8
At 31 December 2000	(0.1)	1.5	0.9	(0.2)	2.1

19 Provisions for liabilities and charges

	Group				Company	
	Total £m	Deferred tax £m	Exceptional restructuring £m	Other provisions £m	Total £m	Deferred tax £m
At 1 January 2001	7.5	1.7	1.9	3.9	0.1	0.1
Currency translation adjustments	(0.1)	–	–	(0.1)	–	–
Profit and loss account	0.4	0.2	(0.3)	0.5	–	–
Utilised in year	(1.5)	–	(1.3)	(0.2)	–	–
At 31 December 2001	**6.3**	**1.9**	**0.3**	**4.1**	**0.1**	**0.1**

Other provisions include £2.9 million (2000: £2.6 million) to cover accrued statutory entitlements that will be paid to employees in Italy and Germany when they leave employment of the Group. The remaining provisions include warranty provisions of £0.8 million (2000: £0.8 million) and property provisions of £0.2 million (2000: £0.2 million).

	Group		Company	
	2001 £m	2000 £m	**2001 £m**	2000 £m
Composition of deferred tax provision				
Accelerated tax depreciation allowances	**0.7**	0.7	**0.1**	0.1
Other timing differences	**1.2**	1.0	**–**	–
	1.9	1.7	**0.1**	0.1

There are no other material timing differences on which deferred tax has not been provided. Provision for tax on capital gains payable on the disposal of revalued properties is made only when it is decided in principle to dispose of the asset.

20 Share capital

The authorised share capital at 31 December 2001 consisted of 65,000,000 (2000: 65,000,000) shares of 20p each, of which 40,985,752 were allotted and fully paid. The movement during the year was

	Shares	Issued share capital £m
At 1 January 2001	40,959,492	8.2
Exercise of share options	26,260	–
At 31 December 2001	40,985,752	8.2

At 31 December 2001 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	167,885	412p - 595p	2002 - 2009
International SAYE schemes	302,901	400p - 633p	2002 - 2007
Executive schemes	1,066,733	268p - 694p	2002 - 2011
Premium option plan	890,105	661p - 819p	2003 - 2010
	2,427,624		

On 6 April 2001, awards over an aggregate of 147,942 shares in the Company were made to 8 senior Group executives under the Company's long term incentive plan. The total number of shares outstanding at 31 December 2001 under the Company's long term incentive plan was 337,045 (2000: 199,910).

The terms of the awards and the related performance conditions are described in the Directors' report.

On 18 April 2001, awards over an aggregate of 94,584 shares in the Company were made to 15 senior Group executives under the Company's deferred bonus plan. The total number of shares outstanding at 31 December 2001 under the Company's deferred bonus plan was 79,737. The terms of the awards and the related performance conditions are described in the Directors' report.

21 Share premium account and reserves

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Other reserves £m	Profit and loss account £m
Group						
At 1 January 2001	2.4	1.6	1.5	–	–	50.0
Retained profit for the year	–	–	–	–	–	5.6
Premium on new shares issued	0.1	–	–	–	–	–
Tax on exchange differences	–	–	–	–	–	(0.3)
Exchange rate movement on foreign net investments	–	–	–	–	–	0.3
At 31 December 2001	2.5	1.6	1.5	–	–	55.6

At 31 December 2001 the cumulative goodwill written off on acquisitions prior to 1 January 1998 amounted to £128.3 million (2000: £128.3 million)

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Other reserves £m	Profit and loss account £m
Company						
At 1 January 2001	2.4	1.6	0.9	9.7	44.0	6.2
Retained profit for the year	–	–	–	–	–	17.5
Premium on new shares issued	0.1	–	–	–	–	–
At 31 December 2001	2.5	1.6	0.9	9.7	44.0	23.7

As permitted by Section 230 (4) of the Companies Act 1985 the Company has not presented its own profit and loss account. The amount of the Group result for the financial year dealt with in the accounts of the Company was a profit of £26.8 million (2000: £2.3 million loss).

There is no material difference between the Group's profit and loss account and the historical cost profit and loss account. Accordingly, no note of the historical cost profit and loss for the period has been presented.

22 Cash and financing

	2001 £m	2000 £m
Reconciliation of net cash flow to movement in net debt		
Decrease in cash in the year	(1.2)	(13.8)
Net repayment of loans	10.1	11.0
Reduction/(increase) in net debt resulting from cash flows	8.9	(2.8)
Exchange rate movements	(0.4)	(0.4)
Movement in net debt in the period	8.5	(3.2)
Net debt at 1 January	(31.0)	(27.8)
Net debt at 31 December	(22.5)	(31.0)

	1 January 2001 £m	Cash flow £m	Other non-cash £m	Exchange movements £m	31 December 2001 £m
Analysis of net debt					
Cash	19.2	(1.2)	–	(0.2)	17.8
Debt due after one year	(46.2)	6.2	35.9	(0.1)	(4.2)
Debt due within one year	(4.0)	3.9	(35.9)	(0.1)	(36.1)
	(50.2)	10.1	–	(0.2)	(40.3)
Total	(31.0)	8.9	–	(0.4)	(22.5)

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

	2001 £m	2000 £m
Interest		
Bank loans and overdrafts	2.6	2.6
Other loans - repayable within five years	0.8	1.1
Total payable	3.4	3.7
Interest receivable	(0.8)	(0.8)
Net interest payable	2.6	2.9

23 Leasing commitments

At 31 December 2001 the Group had the following annual commitments under operating leases

	Land and buildings £m	Other £m	Total £m	2000 £m
Expiring within one year	0.8	0.1	0.9	0.9
Expiring two to five years	2.3	0.2	2.5	2.4
Expiring after five years	1.0	–	1.0	0.8
	4.1	**0.3**	**4.4**	4.1

24 Contingent liabilities

The Company has guaranteed the Senior Notes described in note 18.

25 Pension commitments

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

The adequacy of the schemes to meet the projected benefits is assessed by independent qualified actuaries at regular intervals. The most recent actuarial valuations of the schemes, based on the projected unit method, were as at 5 April 2001. The schemes had assets with a combined market value (excluding the value of insurance policies) of £28.0 million at that date. On the basis of the assumptions adopted, the value of the schemes' assets was equal to 108 per cent of the value placed on the benefits that had accrued to members allowing for expected future increases in salaries. The surpluses arising are being spread over 14 years by way of variation from regular cost using the straight-line method. The most significant actuarial assumptions were: investment return of 6.1% per annum in respect of liabilities for active members and 5.1% per annum in respect of liabilities for deferred and current pensioners; price inflation of 2.5% per annum; general salary inflation of 4.5% per annum; pension increases of 2.5% per annum.

Company contributions to the schemes amounted to £0.6 million (2000: £0.9 million) for the year. On this basis, the pension charge for 2001 has been calculated as £0.7 million (2000: £0.8 million). There is a prepayment of £0.9 million (2000: £1.0 million) included in the balance sheet being the excess of the accumulated company pension contributions paid to the schemes over the amount charged to the profit and loss account.

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

	% per annum
Price inflation	2.5
General salary and wage inflation	4.5
Increases to pensions in payment (in excess of GMPs)	2.5
Increases to deferred pensions	2.5
Discount rate	5.75

25 Pension commitments (continued)

Scheme assets at 31 December 2001 were:	Fair value £million
Equities	19.3
Bonds	6.1
Property	1.1
Cash and net current assets	0.5
Total	27.0

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

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

The following amounts at 31 December 2001 were measured in accordance with the requirements of FRS17:

	Vitec Group Pension Scheme £million	Vitec Group Executive Pension Scheme £million	Total £million
Total market value of scheme assets*	20.0	7.6	27.6
Present value of the scheme liabilities*	17.7	8.2	25.9
Surplus/(deficit) in the schemes	2.3	(0.6)	1.7
Related deferred tax liability	(0.7)	0.2	(0.5)
Net pension asset/(liability)	1.6	(0.4)	1.2

The amount of the net pension asset would have a consequential effect on reserves.

* The assets and liabilities shown for the Vitec Group Executive Pension Scheme include an amount of £0.6 million in respect of certain insurance policies which meet the cost of providing part of the benefit entitlement for some pensioners. The value placed on these insurance policies is in addition to the value of the schemes' investments.

26 Related party transactions

During the year the following related party transactions took place

Lino Manfrotto, a director of Lino Manfrotto & Co Spa, is president and shareholder of Mancor Spa, a company from which Gruppo Manfrotto rents properties used in its business under operating leases, which expire between 2002 and 2003. Abramo Manfrotto, Chief Executive, Photographic and retail display division of The Vitec Group plc, is a non-executive director of Mancor Spa. Rents paid to Mancor in 2001 totalled €241,600, £151,000 (2000: Lit 455 million, £142,835). At 31 December 2001, there were no outstanding amounts payable to Mancor (2000: Lit 135,000, £44). L Manfrotto also owns a factory leased by Gruppo Manfrotto until 2003. Rents paid to L Manfrotto during the year totalled €66,000, £41,000 (2000: Lit 125 million, £39,240).

A Manfrotto has a controlling interest in Antide Srl, a company specialising in world-wide web sites and e-mail services. Group companies paid Antide a total of €68,000, £42,000 during the year (2000: Lit 143 million, £44,891) for products and services. At 31 December 2001 Gruppo Manfrotto owed Antide €38,000, £23,000 (2000: Lit 76 million, £24,669).

27 Post balance sheet event

On 14 February 2002, a subsidiary of the group purchased the trade, assets and certain liabilities of Aspen Electronics Inc for a cash consideration of US$2.2 million, subject to final adjustment on verification of the net assets acquired. The company will be reported within Broadcast camera systems.

Five-year financial summary

	Year ended 31 December				
	2001	2000	1999	1998	1997
	£m	£m	£m	£m	£m
Turnover	**190.4**	200.0	171.4	162.3	144.6
Operating profit before exceptional items and goodwill amortisation	**30.6**	40.1	38.2	40.0	38.4
Interest	**(2.6)**	(2.9)	(1.1)	(0.7)	(0.6)
Profit before tax, exceptional items and goodwill amortisation	**28.0**	37.2	37.1	39.3	37.8
Operating cash flow	**42.1**	45.8	51.1	43.3	45.0
Free cash flow	**18.0**	17.6	29.2	17.8	23.2
Capital employed					
Intangible fixed assets	**10.8**	10.9	10.0	6.9	–
Tangible fixed assets	**48.5**	47.0	37.5	37.0	33.3
Other net assets	**34.5**	38.5	27.7	33.2	23.4
Net cash	**–**	–	–	7.3	3.5
	93.8	96.4	75.2	84.4	60.2
Financed by					
Shareholders' funds – equity	**69.4**	63.7	44.2	81.3	57.3
Minority interest	**–**	–	0.9	0.8	0.6
Net debt	**22.5**	31.0	27.8	–	–
Deferred tax	**1.9**	1.7	2.3	2.3	2.3
	93.8	96.4	75.2	84.4	60.2
Statistics					
Operating profit (%) before exceptional items and goodwill amortisation	**16.1**	20.1	22.3	24.6	26.5
Effective tax rate (%)	**32.1**	30.9	30.7	27.6	31.0
Headline earnings per share (p)*	**46.4**	62.8	54.3	58.2	53.4
Basic earnings per share (p)	**36.4**	56.7	53.3	56.6	53.4
Dividends per share (p)	**22.7**	21.2	18.5	16.1	14.0
Year-end ex-dividend mid-market share price (p)	**425**	498	527	587	636

* differences between Headline and Basic earnings per share arise from exceptional items in the years in question and, from 1998, the amortisation of goodwill.

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

Group directory

Main offices in each country

Broadcast camera systems

Anton/Bauer
14 Progress Drive
Shelton
CT06484
USA
Tel: +1 (203) 929 1100
Fax: +1 (203) 925 4988
www.antonbauer.com

Sachtler Germany
Gutenbergstrasse 5
D-85716 Unterschleissheim
bei München
Germany
Tel: +49 (89) 3215 8200
Fax: +49 (89) 3215 8227
www.sachtler.com
(also Japan and USA)

Vinten Broadcast
Western Way
Bury St Edmunds
Suffolk IP33 3TB
UK
Tel: +44 (01284) 752121
Fax: +44 (01284) 750560
www.vinten.com
(also Asia Pacific, France, Germany, Japan and USA)

Photographic and retail display

Alu Italy
Via Dei Commercio 22
36060 Romano d'Ezzelino
V1 Italy
Tel: +39 (0424) 516 816
Fax: +39 (0424) 36550
(also UK)

Manfrotto
Via Sasso Rosso n.19
PO Box 216
I-36061 Bassano del Grappa
Italy
Tel: +39 (0424) 555855
Fax: +39 (0424) 808999
www.manfrotto.com
(also France)

Alu USA
117 Seaview Drive
Secaucus
NJ07094
USA
Tel: +1 (201) 617 2000
Fax: +1 (201) 617 2001
www.alu.com

IFF
Via Vittorio Emanuele 32
I-50041 Calenzano
Firenze
Italy
Tel: +39 (055) 882 6351
Fax: +39 (055) 882 6355
www.iff.it

Bogen Photo
565 East Crescent Avenue
PO Box 506
Ramsey
NJ 07446-0506
USA
Tel: +1 (201) 818 9500
Fax: +1 (201) 818 9177
www.bogenphoto.com

Litec
Via Venier 52
30020 Marcon (Ve)
Italy
Tel: +39 (041) 596 0000
Fax: +39 (041) 595 1082
www.litectruss.com

Gitzo
Créteil Parc
8-10 rue Séjourné
94044 Créteil
France
Tel: +33 (1) 45 13 18 60
Fax: +33 (1) 43 77 15 05
www.gitzo.com

Communications and audio

Clear-Com
4065 Hollis Street
Emeryville
CA 94608
USA
Tel: +1 (510) 496 6666
Fax: +1 (510) 496 6601
www.clearcom.com

Drake Electronics
26-28 The Hydeway
Welwyn Garden City
Hertfordshire AL7 3UQ
UK
Tel: +44 (01727) 871200
Fax: +44 (01707) 371266
www.drake-uk.com

Broadcast services

Audio Specialties Group
465 Herndon Parkway
Herndon
VA 20170-5202
USA
Tel: +1 (703) 471 7887
Fax: +1 (703) 437 1107
www.a-s-group.com

Bexel
801 South Main Street
Burbank
CA 91506
USA
Tel: +1 (818) 841 5051
Fax: +1 (818) 841 5729
www.bexel.com

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 IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, telephone 0870 162 3100 (UK only) or +44 (0)20 8639 2157 (Overseas only).

Share price information
The middle market price of a share of The Vitec Group plc on 31 December 2001, the last dealing day of 2001, was 425p. During the year the share price fluctuated between 330p and 562.5p. The Company's share price is available from the Group's website www.vitecgroup.com, with a 15 minute delay, and from the Financial Times web site www.ft.com with a similar 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	17 April 2002
Ex-dividend date for 2001 final dividend	24 April 2002
Record date for 2001 final dividend	26 April 2002
Proposed 2001 final dividend payment date	23 May 2002
Announcement of 2002 interim results	September 2002
Proposed 2002 interim dividend payment date	November 2002

Analysis of shareholdings as at 31 December 2001

Shares held	Number of holders	% of holders	Number of shares	% of shares
Up to 1,000	758	56.57	309,027	0.75
1,001 to 5,000	353	26.34	839,947	2.05
5,001 to 10,000	61	4.55	429,488	1.05
10,001 to 50,000	63	4.70	1,572,724	3.84
50,001 to 100,000	34	2.54	2,565,796	6.26
100,001 and over	71	5.30	35,268,770	86.05
	1,340	100.00	40,985,752	100.00
Institutions and companies	440	32.84	37,842,515	92.33
Individuals including directors and their families	900	67.16	3,143,237	7.67
	1,340	100.00	40,985,752	100.00

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Group head office
One Wheatfield Way
Kingston upon Thames
Surrey KT1 2TU
United Kingdom
Tel: +44 (0)20 8939 4650
Fax: +44 (0)20 8939 4680
Email: info@vitecgroup.com
Web: www.vitecgroup.com