02

taking action

The Vitec Group plc annual report for 2002

In 2002 we commenced implementation of our new strategy; Consolidate-Leverage-Grow, announced at the Interim.

We are consolidating our international operations to reduce our cost base and make our Group both more competitive and more profitable. We are leveraging our market expertise and experience by adopting a more proactive approach to sharing sales and customer information. We are setting the standard for innovation and development by continuing to introduce sophisticated new products.

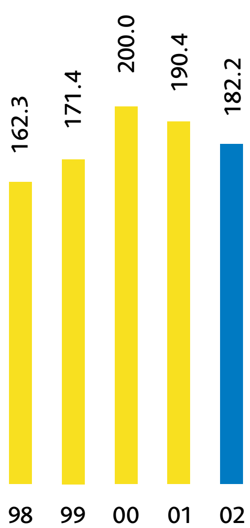
These actions will put us in a good position to exploit growth opportunities when the broadcast, media and entertainment industries recover.

The year in review

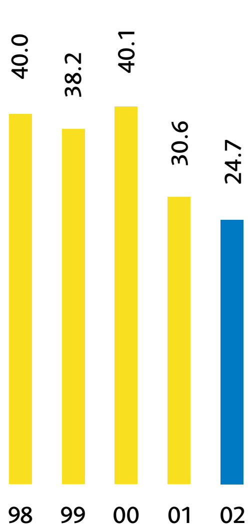
A challenging and high profile project for the Group. IFF and Litec custom made 200 lighting suspension units for world renowned architect Renzo Piano's prestigious Santa Cecilia auditorium in Rome.

- Continued strong cash generation
- Resilient performance in Photographic and retail display
- Manufacturing restructuring under way, consolidating in lower cost locations
- Emphasis on new product development
- Recommended unchanged total dividend of 22.7p

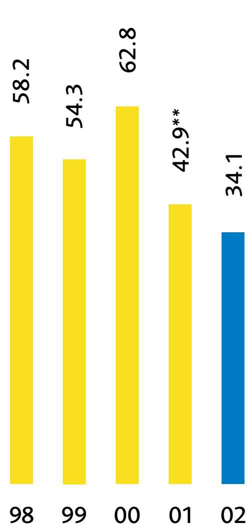
Turnover
£m



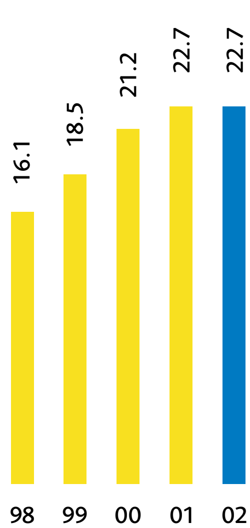
Operating profit*
£m



Headline earnings per share*
pence



Dividend per share
pence



*before amortisation of goodwill and exceptional items
**2001 restated for FRS19 deferred tax standard

Chairman's statement

The challenge Shareholders are now familiar with the difficult market in which we have been operating throughout 2001 and 2002 and clearly we are not immune from the impact of this. The challenge facing our management team remains to focus on delivering operational improvements in our businesses and to position them to take advantage of the upturn, when it comes, by continuing to improve our range of new products and by creating a more efficient and cost-effective manufacturing capability throughout the Group.

As is evident from our results for the year ended 31 December 2002, a relatively small decline in turnover (4.3% decline from £190.4 million in 2001 to £182.2 million in 2002) has a significant effect on our profit before tax, amortisation of goodwill and exceptional items (17.5% decline from £28.0 million in 2001 to £23.1 million in 2002). However, the actions taken during the year have reduced this effect from that in 2001.

Tighter management Our Photographic and Retail business continues to perform well, with operating margins (before amortisation of goodwill and exceptional items) at 20%. In the tougher broadcast market, the Broadcast Services division has reacted to the downturn by cost cutting and tighter management of its rental assets. Together with successful contracts at the FIFA World Cup, these actions have shown through in operating profits (before amortisation of goodwill and exceptional items) reduced by £0.2million on sales down £1.8million. In our communications companies, now part of Broadcast Systems, the cost cutting and new products launched during the year helped to improve profits (before amortisation of goodwill and exceptional items) by 50% to £1.2million. However, our results have been most affected by the decline in the camera support companies, particularly Vinten and Sachtler, whose operating profits (before amortisation of goodwill and exceptional items) fell by £5.1 million on sales that were £8.2 million lower. Projects to reduce the cost base through consolidating manufacturing, and to introduce exciting new products, are progressing well.

Our profits in the past have benefited substantially from modest increases in turnover and the Company believes that shareholders will benefit from the operating leverage in our business when the broadcast market recovers. We need to balance the requirement to reduce costs throughout the Group with the necessity of investing in new products and in effective sales and marketing such that our brands maintain their value.

Acquisitions During 2002 we looked at a number of acquisitions which would help the Group develop into adjacent, but related, areas and which would make not only strategic but financial sense for shareholders. On close examination through our due diligence processes a number of these opportunities failed to meet our financial objectives and these due diligence costs, amounting to £0.5million, are included in our operating expenses for 2002. We continue to look for acquisition targets which can be integrated into our existing portfolio and provide future growth. Early in 2003 we announced the acquisition of Radamec Broadcast Systems, whose business is complementary to Vinten, and OConnor, which manufactures specialist heads and accessories for the film industry. We expect both acquisitions to be earnings enhancing from 2004.

Changes to the board During the year we have had several changes to the Board. I would like to welcome Will Wyatt, who joined the Board as a non-executive director in June 2002 and who brings with him a wealth of experience from his tenure at the BBC. I also welcome Alastair Hewgill, who joined in May 2002 as Finance director. Alastair previously held senior finance roles at GKN. Richard Green stepped down as Finance director in May 2002 and I would like to thank him for his dedication to Vitec as Finance director for over 10 years. Michael Stacey resigned in October 2002 and I would like to thank him for his contribution to the Company.

Our employees have continued to rise to the challenges which we all face and I thank them for their hard work and flexibility over the year.

Dividend We are recommending an unchanged final dividend for the year of 16.6p per share, giving a total dividend for the year of 22.7p, representing a net yield of 8.4% at the share price of 270p on 5 March 2003. Our adjusted basic earnings per share figure of 34.1p is down 20.5% from last year (42.9p) but we continue to generate good cash flow and have a modest level of indebtedness.

Outlook Overall, the Group is not anticipating a recovery in markets during 2003. While present trading is broadly in line with expectations, we are tackling the decline in the broadcast market with a significant manufacturing reorganisation, benefits of which will be seen in 2004. The Broadcast Services division in the USA has had a slow start to the year, and will not benefit from the major sporting events of 2002. I will be able to update shareholders again in early May at the time of our annual general meeting.

Alison Carnwath

Alison Carnwath
Chairman

Chief executive's review

During my first year at Vitec, I took the opportunity to review the various businesses within the Group and to initiate the implementation of a new strategy based on the watchwords 'Consolidate-Leverage-Grow'. This new strategic path was adopted to react to the market environments in which we operate: whilst photographic markets have remained stable, broadcasting markets have continued to deteriorate in 2002. With these difficult market conditions in mind, it was pleasing to see initial benefits resulting from the new strategy, particularly in respect of performances at Clear-Com and Drake and in the new products launched at the end of the year.

Consolidate – Leverage – Grow With the changed market conditions it is no longer appropriate to run each of the businesses as independent companies as we have in the past. There are operating synergies to be achieved from consolidating some of the manufacturing operations which have until now been run separately. By being more proactive in sharing sales leads we will also leverage the market knowledge we have within the Group. We will continue to keep our outstanding brands independent, the underlying strength of Vitec, but look for ways to make them operate more cohesively. Some of the savings from the consolidation of the manufacturing platforms will be used to fund increases in R&D and marketing spend to generate future growth. We will continue to look for acquisition targets which will add value to our existing portfolio and provide future potential sales growth, or where we can improve the performance of the acquired company.

Market overview Vitec provides products and services to the broadcasting, media and entertainment industries, which have themselves been under growing pressure during 2002. Our core customers, from broadcasting networks through to individual professional photographers, derive at least part of their revenue from advertising. This has been in decline for over a year and the initial hopes of recovery in late 2002 faded, with many industry observers now predicting a material advertising upturn as late as 2004. Additionally, some of the large media groups are going through a period of restructuring and consolidation which is reducing their expenditure on our products and services.

Operational performance This reduction in our key customers' spending power has affected the performance of Broadcast Systems, particularly Sachtler and Vinten (which primarily manufacture video camera supports). Our intercom companies have, however, been successful in selling their systems into new markets, notably US homeland defence, and have therefore been able to maintain their level of sales.

Reduced customer spend also impacted Broadcast Services, where Bexel's strong performance in the FIFA World Cup was not sufficient to offset the reductions in its rental contracts from both outside broadcast and corporate communications activities. Robust consumer confidence during the year aided our Photographic and Retail Display division, which saw continued strong demand from the professional as well as the semi-professional and amateur photographer for our tripod and accessory products.

Structural changes and operational efficiencies In the light of depressed markets, the immediate focus has been on reducing costs and maintaining our good cash generation. To this end, we further strengthened our management team – in June we appointed Brian McCluskie as Operations director and have made a structural change by consolidating the Broadcast Camera Systems and Communications and Audio divisions into one – Broadcast Systems.

We have announced the closure of one plant in the USA and one in Germany, with the production being moved to existing facilities in the UK and Costa Rica. The first benefits of this (£2 million) will flow through in 2004. Operating expense (before amortisation of goodwill and exceptional items) has been decreased from 2001 despite increased M&A, tax advisory and recruitment costs. Other changes at Drake and Clear-Com have helped their operating profits to rise by 50% from last year.

At the same time, the strong development pipeline has been maintained, with exciting product launches from Vinten, Drake and Manfrotto in particular. Vitec companies will continue to set the standard for product innovation in order to capitalise on the market upturn when it comes.

Despite some necessary stock build-up to protect the business during the factory moves, the continuing focus on cash generation has resulted in net debt falling by £10.6 million to £11.9 million at the year end, emphasising the underlying financial strength of Vitec.

Post balance sheet events During February we announced the acquisitions of OConnor Engineering Laboratories, based in Costa Mesa, California, for US$2.7 million (£1.6 million) and Radamec Broadcast Systems, based in Chertsey, England, for £4.65 million. OConnor is a leading designer and manufacturer of camera control heads for the film industry, an area Vitec has in the past only supplied in a limited way; Radamec Broadcast Systems has a strong position in Europe in remote controlled camera systems for both broadcasters and legislatures. Both will form part of our Broadcast Systems division and we expect them to be earnings enhancing in 2004.

Gareth Rhys Williams

Gareth Rhys Williams
Chief executive

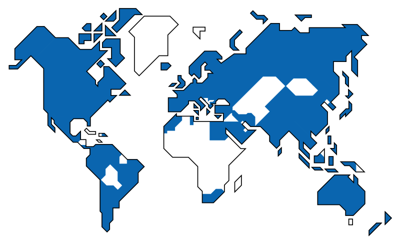
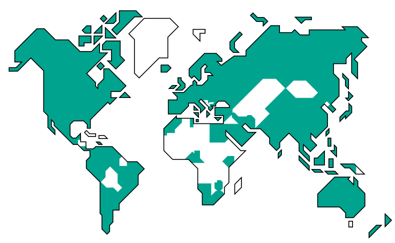
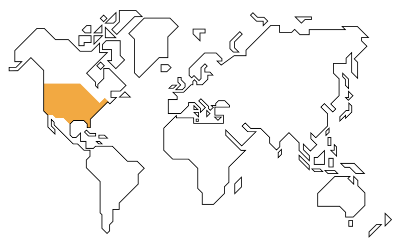
Group overview

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
Photographic and retail display	Design and manufacture of photographic and video camera support, as well as lighting, support and suspension equipment, for professional photography, video, broadcast and cinematography. Distribution of photographic, video and cine related equipment and accessories. Design, manufacture and distribution of retail display products.	ALU, LITEC, AVENGER, Manfrotto, bogen, GITZO	Photographic, video heads and tripods. Lighting stands, grips, clamps and accessories. Lighting and scenery suspension equipment. Photographic accessories. Live entertainment and exhibition lighting suspension structures. Modular metal-based retail display systems.  
Broadcast systems	Design and manufacture of high quality equipment used principally by broadcast and live entertainment professionals. Focused on studio broadcast, outside broadcast, electronic news gathering and electronic film production markets with applications in the air traffic control and government markets.	anton/bauer, sachtler, ASPEN, AutoCam, VEGA, Clear-Com Intercom Systems, Vinten, drake, oconnor, RADAMEC	Manual pedestals, tripods and heads for TV, ENG and EFP applications. Remote-controlled camera systems. Studio and portable lighting. Scenery hoists and pantographs. Microprocessor-controlled batteries and chargers for video cameras. Systems for portable power life support devices. Multi locational intercom systems. Party line intercom systems. Wireless intercom systems. Wireless microphones.  
Broadcast services	Rental services and selected sales of camera, video, wireless communication and audio equipment, including engineering support for the film and TV programme production markets.	ASG, bexel	Rental of broadcast video equipment. Rental of audio equipment. Rental of high definition TV production support. Provision of support for major event broadcasting and webcasting. Sales of communications, audio equipment and used video equipment.  

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

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

Photographic and retail display

Products for professional photographers and the retail display market

Robust performance in photographic markets, with weakness in retail display offset by a large custom contract.

The market place The USA, the Group's most important market for the photographic, lighting support and retail display businesses, enjoyed an exceptionally good year on the Photographic side despite difficult market conditions. However, the Retail Display businesses suffered severely as the USA recession affected retailers and as mass retailers took market share from the department stores and speciality chains, ALU's core customers. European photographic markets were strong for most of the year but showed some weakness in Germany throughout the year. Sales decreased in Japan, for the second consecutive year, and in China, last year's strongly emerging market. South Korea's growth, greatly helped by the World Cup, was not enough to counter this effect. The Retail Display business in Europe was very weak on the standard products but strong in custom projects, in particular with a contract to supply Nokia.

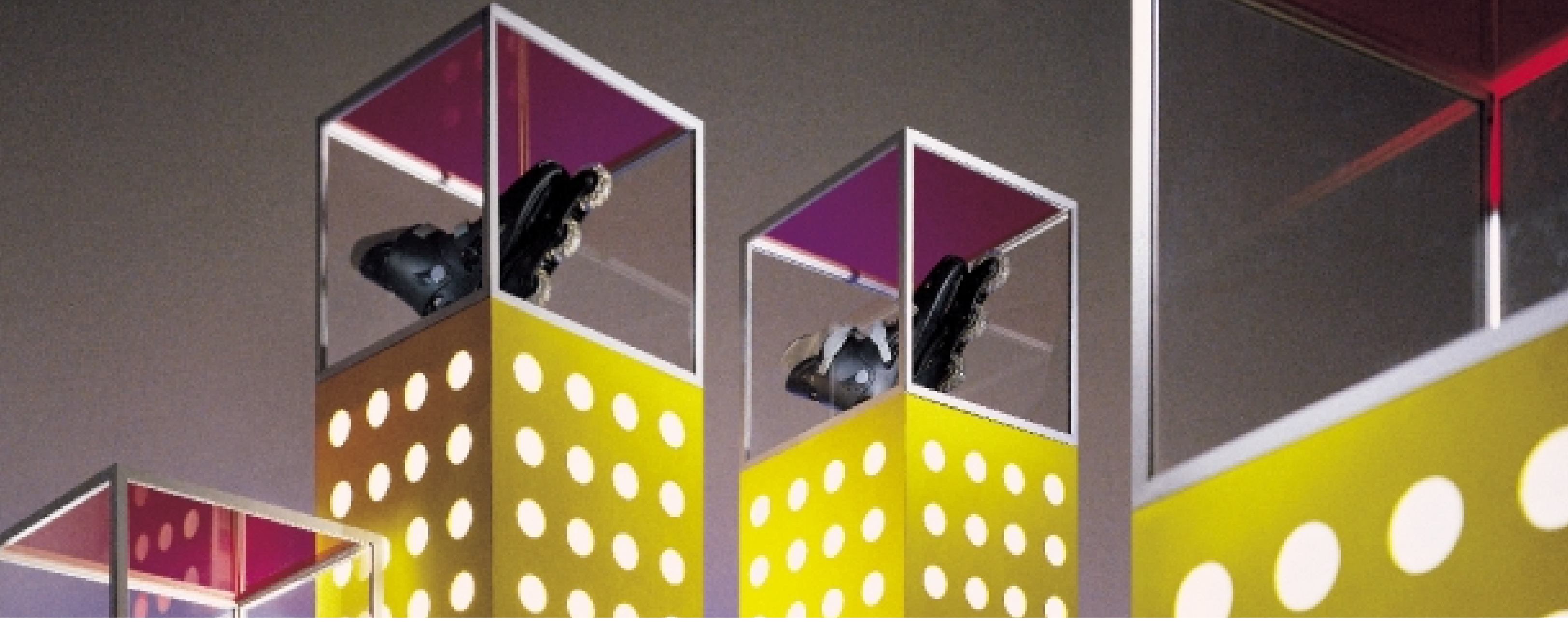
Professional products Sales of the higher margin photographic camera and lighting support products increased compared to last year. Manfrotto and Gitzo launched a large number of new products at shows during last year, to an excellent response from the market place. Important launches included composite video heads, tripods for digital cameras, geared heads, a LANC-protocol remote control pan bar for Sony and Canon videocameras, a motorised studio background support system and a range of Mini DV tripods from Manfrotto; and new compact carbon fibre tripods and a line of high performance photographic centre ball heads from Gitzo. IFF, despite the drop-off in sales of the Identisystem product, has increased its presence in the studio suspension market. Litec increased sales of its lighting suspension structures over the prior year primarily thanks to new products and prestigious projects such as the NATO convention held near Rome and the international e-Government symposium in Palermo. On the distribution side of the photographic sector, Bogen has signed an exclusive USA agreement for the distribution of Delsey, a leading brand in camera luggage. In Retail Display, ALU introduced a number of innovative products at New York's December market such as the new convenient collapsible box display structure, 'Autocube' and an elegant, easy-to-mount tension pole system, 'Stylo'.

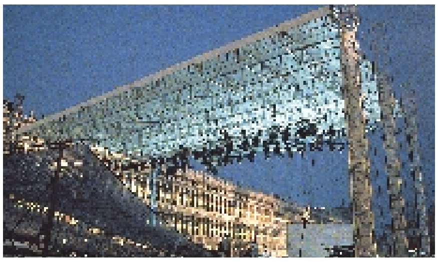
Organisational changes 2002 was a year of great organisational change for the division: the Photographic companies have been reorganised around clearer functional lines operating under a newly formed holding company, Gruppo Manfrotto srl, which has incorporated all the key functions of the business. To reduce production costs and improve efficiency, the Italian manufacturing companies have successfully introduced flow production lines in two of their sites. The remaining sites will be converted during 2003.

The Movex IT system was successfully implemented in ALU New York and ALU Italy. The total conversion to a division-wide integrated system will be completed by the summer of 2003, yielding both a smoother fulfilment experience for our customers and simpler internal processes.

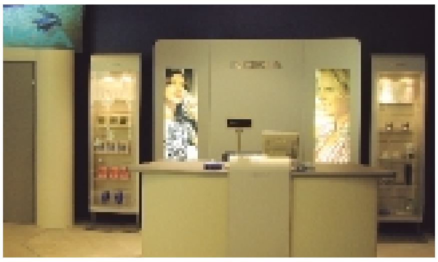
	2002	2001
Turnover	£77.0m	£75.2m
Operating profit*	£15.4m	£16.4m
Operating margin	20.0%	21.8%

**before amortisation of goodwill of £0.1 million (2001: £0.1 million) and exceptional items of £0.8 million (2001: Nil)*



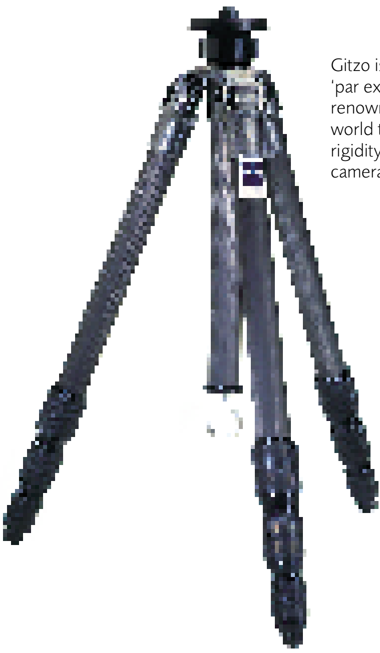


A Litec stage roofing structure filmed in St. Mark's Square for an Italian TV special. The dimensions of the structure (25m long x 15m deep x 12m high) with a load capacity of 3 tons of lighting equipment places special emphasis on Litec's strength. This is one of the principal growth areas for Litec.



ALU's proven capabilities as a provider of modular merchandising and retail display solutions helped them win an exclusive contract with Nokia. Taking care of the telecommunication giant's retail presence, from their shop-in-shop spaces to their branded stores has shown off ALU's expertise to the full.

Box is the ultimate retail building block from ALU. It stacks and clips together allowing one to be used on its own or a hundred used to make a complete showcase.



Gitzo is the professional photographic tripod 'par excellence'; indeed the company is renowned for having been the first in the world to offer the high-tech lightweight rigidity of carbon fibre in their range of camera supports.

The Manfrotto 522 Video Camera Remote Control has fast become a star product in the semi-professional video market, receiving outstanding reviews from major publications. The remote unit is mounted on a video head pan bar, allowing the cameraman to control both camera movement and camera functions from a single position and with only one hand, resulting in easier operation and reduced risk of camera shake.

Broadcast systems

Products and systems primarily for broadcast applications

New products launched to stimulate demand, combined with cost reduction initiatives to tackle a tough broadcast market.

The Broadcast Systems division comprises the units in the former Broadcast Camera Systems and Communications and Audio divisions, merged last year as they both primarily sell to the same customers. The broadcast market has been very tough throughout the year.

Vinten continues to set the standard for the high end studio and sports applications: WAVY-TV, in Virginia USA, chose Vinten's AutoCam robotic pedestals as a cost effective solution to upgrade it's existing manually operated studio cameras, proving that the product is as relevant to local stations as it is to larger central studios. At the World Cup, Vinten also had more than 50 Vector and Vision camera support systems, particularly the Vector 700 Pan and Tilt Heads, spread across all 20 World Cup venues. The Vector 700 is extremely popular at such events as its tailored drag characteristics allow a high level of control for both slow and fast image capture which is ideal for slow motion replay. After its launch at IBC 2002, Vinten's Fibertec created excitement amongst a variety of users. A breakthrough in innovation, the Fibertec is a tripod with twice the rigidity of other products on the market, made of composite 'I section' struts rather than the more typical tubular legs.

Sachtler's product range of camera control and automated suspension and lighting management systems has been widened by the introduction of the Artemis product line – four different balance systems for the professional camera operator. These portable systems are used for applications where a tripod is not practicable, typically live sports coverage. Sachtler also won a new customer, SWR who are one of the largest television companies in Germany, for their studio lighting applications, delivering nearly 500 telescopic systems with a total turnover of 1.4 million Euros (£0.9 million).

Anton/Bauer introduced several new products, led by its unique Dionic battery system. This incorporates state-of-the-art lithium ion cell chemistry with the proven features of the Anton/Bauer InterActive Digital battery system and delivers lightweight performance for the burgeoning market for small size DV cameras. This new battery accounted for more than 10% of the battery sales in 7 months of production. NBC, an Anton/Bauer client for over 20 years, chose to upgrade its battery system to the new Dionic battery and Titan chargers. The manufacturing operations of the newly acquired Aspen were integrated into Anton/Bauer's facility in Shelton, Connecticut. Aspen's distribution and pricing programs were reorganised and the product line trimmed to better address market requirements. A new line of innovative battery and charger products will be unveiled at NAB 2003.

Clear-Com and Drake, during the year, produced orders and sales that exceeded those achieved in 2001. After experiencing a difficult first 6 months, both companies were able to recover during the second part of the year. While the broadcast market remained soft, the investment by Drake to geographically develop its sales led, in the last quarter, to Drake delivering its first ever orders to Japan and to the USA: a system for the US Senate. Clear-Com continued a tradition of significant sales in Japan and won a prestigious order from NTV worth almost US$1 million (£0.7 million). Considerable work was undertaken by Clear-Com to advance its sales to the Military, Government and Aerospace markets and substantial success was achieved to help offset the difficult broadcast market.

At IBC in September, Drake launched FreeSpeak, the world's first digital cellular wireless intercom. It was enthusiastically received and the first orders for this revolutionary new wireless product were placed. Clear-Com wireless sales experienced strong growth, confirming an increasing demand by customers in favour of wireless solutions over their more traditional 'wire connected' alternative. The integration of VEGA in 2001 and expansion of Clear-Com's wireless product range has underpinned this success. Early in 2002 Drake won a £1.5 million contract for the development and supply of a communications system for the European Space Agency (ESA) to be used for the Columbus Space Laboratory Project, which has subsequently led to projects with other ESA facilities, such as the astronaut training centre in Cologne. The technology developed for these programmes has attracted considerable interest from space agencies around the world. The Air Traffic Control (ATC) market remained depressed following September 11, however there were signs that the industry had readjusted to lower revenues and invitations to tender are beginning to reappear and in early 2003 Drake landed a significant ATC order for a system in South Korea.

	2002	2001
Turnover		
Broadcast systems	**£75.7m**	**£83.9m**
Communications and audio	£18.1m	£18.1m
Broadcast camera systems	£57.6m	£65.8m
Operating profit*		
Broadcast systems	**£8.4m**	**£13.1m**
Communications and audio	£1.2m	£0.8m
Broadcast camera systems	£7.2m	£12.3m
Operating margin		
Broadcast systems	**11.1%**	**15.6%**
Communications and audio	6.6%	4.4%
Broadcast camera systems	12.5%	18.7%

** before amortisation of goodwill of £0.4 million (2001: £0.4 million) and exceptional items of £5.0 million (2001: Nil)*

Fibertec is the revolutionary new lightweight tripod that has 72% more torsional rigidity than its nearest competitor. Besides being robust, lightweight and easy to use, its exceptional rigidity enables a cameraman to get a stable image every time, regardless of how demanding conditions may be.

The Predator is a new and exceptionally fast remote controlled pan and tilt head from AutoCam. It provides rapid on-air quality pan and tilt movement in a variety of applications. It allows an operator to respond rapidly from any remote location, and is especially useful for outside broadcasts and for filming from unusual or hazardous locations.

Anton/Bauer introduced several new products led by its unique Dionic battery system. This incorporates state-of-the-art lithium ion cell chemistry with the proven features of the Anton/Bauer InterActive Digital battery system. It delivers lightweight performance for the burgeoning market for small DV cameras. In just 7 months of production, the new battery has already accounted for than 10% of battery sales.

Sachtler's new Artemis Cine, Cine HD, EFP Pro and EFP camera stabilizing systems offer a number of unique benefits. Its modular construction enables system components to be combined according to the cameraman's needs. Individual modules can also be replaced or upgraded with a minimum of effort and cost.

Broadcast services

Rental services and technical support mainly for the broadcast market

Successful FIFA World Cup and Winter Olympics contracts were highlights in a year of otherwise weak US demand. Growth continues in high definition services.

Weak trading conditions Broadcast Services was impacted by ongoing weak trading conditions in the USA broadcast industry in 2002. Over the past few months, there have been signs of a slow and patchy rebound in broadcast, but the commercial market remains quite weak. Price competition is still intense due to the continued sector-wide surplus of equipment available for rent.

As a result, and despite a significant boost from large Winter Olympic and World Cup contracts in the first half of the year, annual turnover was lower than last year. Used equipment sales were constrained for several months because so much equipment was needed to serve the large contracts for these major events.

Capital expenditures Capital expenditures were reduced sharply in the second half of 2002, to continue bringing the Division's pool of equipment in line with lower demand. More equipment was subrented throughout the year than in the past which, despite creating lower margins, supports the large events and helps meet spot shortages without requiring capital investment.

Cash generation The Division was significantly more cash generative than it has been historically, as equipment depreciation costs exceeded the amount of capital investment needed to meet the lower level of market demand. Equipment levels will reduce further in 2003, which will allow for continued profitability and better cash flows, despite the fact that the larger cyclical events, for example the Olympics and the US presidential elections, will not recur until 2004.

Direct sales and marketing The Division's primary operational focus is on increasing the level and effectiveness of its direct sales and marketing campaigns. Projects have been taken away from competitors and several new product packages and service offerings have been developed as a direct result of the greater customer contact already being achieved.

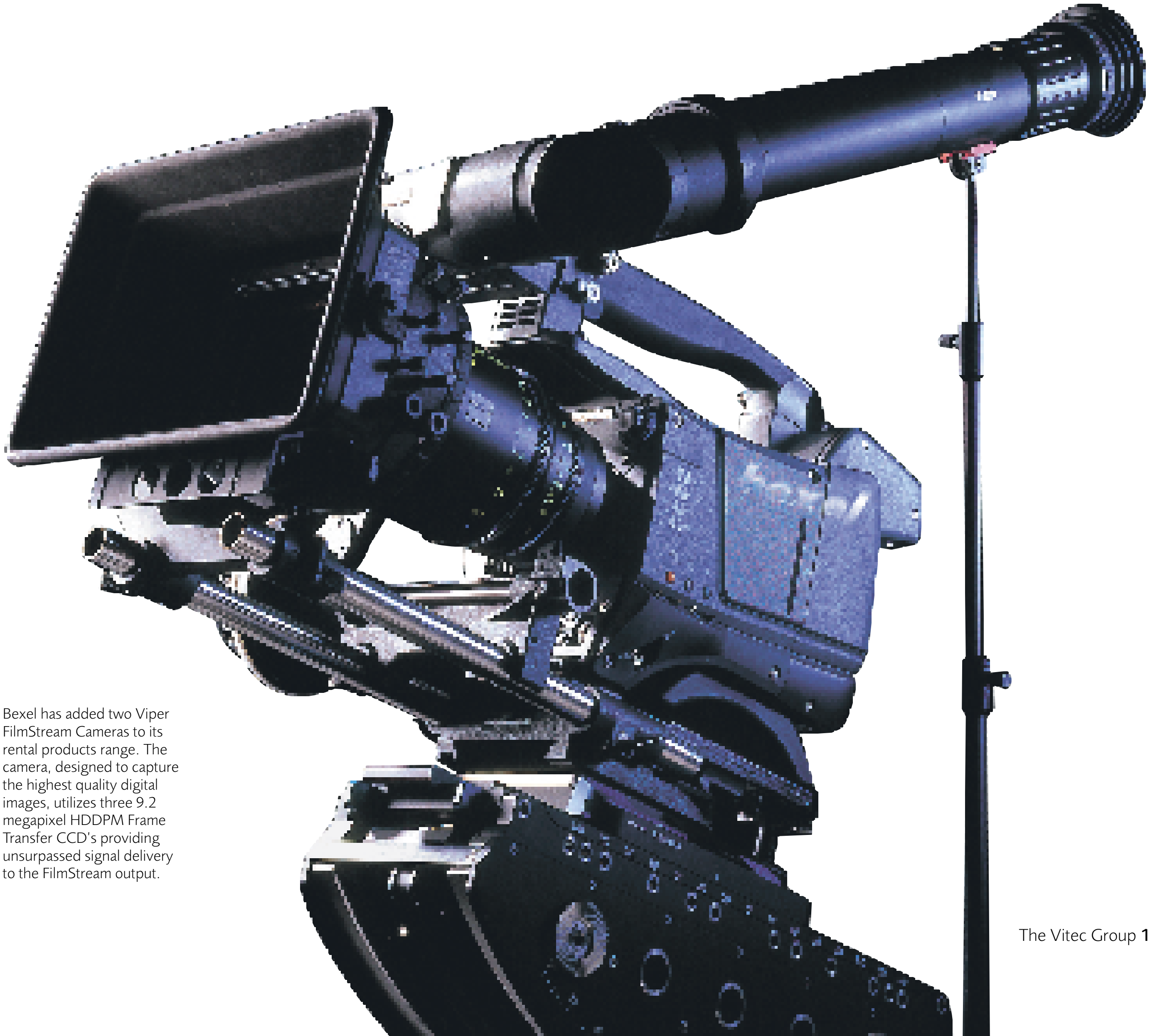
The film sector The Division's ongoing entry into the film sector via high definition digital camera technology remains a significant source of new business as producers switch from shooting on celluloid film to shooting on video.

	2002	2001
Turnover	£29.5m	£31.3m
Operating profit*	£0.9m	£1.1m
Operating margin	3.1%	3.5%

**before amortisation of goodwill of £0.4 million (2001: £0.4 million)*

Bexel, a leader in video production, equipment rental, production support and broadcast television services has significantly increased its presence in Advanced Imaging and Electronic Cinematography. In November the company sponsored a Premier High Definition (HD) showcase and workshop at its centre in Burbank, California that was attended by 250 industry professionals from all over the globe. It emphasised the fact that Bexel offers all three of today's high-end HD/Advanced Imaging formats.

Bexel provides equipment to ABC Sports, ESPN, NFL Films and Fox Sports to cover events such as the Super Bowl held in Atlanta, Georgia. Bexel's involvement with the Super Bowl - one of the premier international sporting events - goes back for almost a decade.



Bexel has added two Viper FilmStream Cameras to its rental products range. The camera, designed to capture the highest quality digital images, utilizes three 9.2 megapixel HDDPM Frame Transfer CCD's providing unsurpassed signal delivery to the FilmStream output.

Manufacturing

Producing rule breaking products for customers worldwide

Consolidating operations internationally will both drive down costs and improve manufacturing performance.

Reorganization and restructuring In September 2002 we announced our reorganisation and restructuring plans. Vitec Manufacturing was formed in October 2002 to bring focus to the operations parts of the businesses, supporting our strong Sales and Marketing, Engineering and Design teams. Quality and 'Complete and On Time' delivery are the key goals for the Operations teams in 2003. The restructuring programme will focus on consolidating facilities to exploit our scale and deliver improved quality and delivery performance, but at reduced cost. We will achieve this by specialising our plants - low complexity broadcast support products being made in San Jose, Costa Rica, where we have had a facility for 8 years, and high complexity products in Bury St Edmunds, England. As a result, the plants in New York and Munich are being closed. Full year financial benefits in excess of £3 million will be achieved in 2005.

To ensure that our products maintain their local design character and quality, Sachtler's design, engineering and product management will remain in Munich, and those for the automated Vinten products in New York.

Key milestones Some of the key milestones already achieved are that the first products have already been transferred from New York to Bury St Edmunds, passing the rigorous quality assurance checks; the first products have been transferred from Germany and England to Costa Rica and are now in production; agreement of the social plans has been reached in Germany; and top calibre additions to the Costa Rica management team have been made and their training in Europe completed.

World Class Manufacturing (WCM) The rollout of our WCM programme is under way with 'lean' projects in Manfrotto and Bury St Edmunds. Again, we have strengthened the team to accelerate changes to the manufacturing model that will enable us to be more flexible in our factories, reducing inventory and improving our customer service.

New initiatives As consolidation of our manufacturing base takes place, it will give us a solid platform to launch a second wave of supply chain and logistics initiatives. In the past, the businesses have operated in isolation in both these activities. In 2002 we started projects that will continue throughout 2003; in supply chain we are focusing on the top areas of spend across the Group to bring buying power and improved pricing; in logistics we aim to shorten the time to market as well as reduce our costs.

Robust processes and measurement systems To allow smooth new product introductions across the Group and enable manufacturing to be both more flexible and, in some cases, physically remote from design, we have implemented common front-end engineering across the companies. We are well under way with the implementation of new ERP systems; Bury St Edmunds went live in May 2002, and we are rolling out the programme across Broadcast Systems to complete by the end of 2004.

Standard manufacturing measures have been implemented across the businesses that can be reviewed, in some cases daily. This culture has been initiated in Italy, Germany, UK and Costa Rica with encouraging results.

Unigraphics, our advanced computer Design and Engineering software, provides a virtual environment in which fully defined electronic prototypes of new products are created and analysed. We used this process in the development of Fibertec.

The 522 LANC video camera remote control unit is a new departure for Manfrotto. Extensive work on the adaptability of the product's components, from circuitry to mechanical parts and housing, allows the same basic unit to be issued with a variety of specifications and features to match rapidly-changing video camera technology, with only minimal manufacturing changes. Product development costs have been cut in the process.

FreeSpeak, the world's first fully-featured, licence-free, digital wireless system. The new system eliminates the problems usually associated with traditional two-way systems. It enables users to do everything normally only possible with a standard wired communication system. Computer aided Design and Engineering enabled us to bring this system to market quickly.

Financial review

Turnover reduced by £8.2 million (from £190.4 million to £182.2 million) or 4.3% in the year. Virtually all of the reduction occurred in the Broadcast Systems division reflecting the continuing recession in the broadcast and media industries. The lower volume and mix effects reduced turnover by £3.3 million and there were lower effective prices due to unfavourable foreign exchange rate movements of £2.0 million. These reductions were offset by a net pricing benefit of £0.2 million and contribution from the acquisition of Aspen Electronics of £0.8 million. In addition to the above movements, the weaker US$ (4.3% versus last year) partially offset by a stronger Euro (1.5% versus last year) resulted in an adverse exchange translation of £3.9 million.

Gross margins Gross profit margins fell from 50.6% to 47.7% reflecting the lower volumes and mix changes. Gross profits were £9.4 million lower than the prior year.

Net operating expenses Net operating expenses before amortisation of goodwill of £0.9 million and exceptional items of £5.8 million decreased by £3.5 million to £62.3 million, of which £2.0 million was due to lower costs and £1.5 million exchange gains on hedging. Operating expenses were increased by a number of costs including due diligence on unsuccessful acquisitions, increased advisory costs and higher bad debts.

Operating profits Operating profits before amortisation of goodwill and exceptional items fell from £30.6 million to £24.7 million and operating profit margins were 13.6% compared to 16.1% in 2001. The year on year effect of translating overseas profits was negligible and the net effect of unfavourable exchange rates was £0.5 million after hedging.

As announced at the interim, the Group has taken an operating exceptional charge of £5.8 million in the second half relating to the restructuring of its operations, including the closure of manufacturing in Munich and New York and transfer to Costa Rica and Bury St Edmunds.

Other profit and loss items The sale of a building in France for £1.9 million produced a profit of £0.2 million.

Taxation The effective taxation rate on operating profit before amortisation of goodwill and exceptional items has increased to 39.4% from 37.1% in 2001. The increase is attributable to an adverse change in the source of Group profits; particularly the Group has incurred net losses in the UK but has not benefited from tax relief on these. In 2002 £0.7 million of the £9.1 million total tax charge represents deferred tax and is, therefore, a non-cash charge.

Cash flow and net debt Cash generation remained strong despite the lower profits, and net debt decreased during the year by £10.6 million to £11.9 million. Net cash inflow from operating activities was £35.4 million (2001: £42.1 million), equating to 86p per share (2001: 103p per share). Cash flow from a reduction in working capital was £0.6 million (2001: £0.4 million). Capital expenditures and financial investments were £10.5 million (2001: £15,4 million), of which £4.8 million relates to rental assets and £1.1 million to IT projects, partly financed by the proceeds from higher asset disposals of £3.9 million (2001: £2.4 million). After a seasonal increase of £0.3 million in the first half, stocks were reduced by £3.4 million in the second half and at the year end were £3.1 million (9.2%) lower than the prior year. Stock days improved to 117 (2001: 130). Trade debtors were £2.1 million higher than last year with debtor days at 57 days (2001: 51 days). This was principally due to invoicing in November and December being £3.7 million greater than the same period in 2001, particularly Retail Display in Europe and Communications and Audio. However, trade creditors at £12.1 million were £2.5 million higher than last year, largely reflecting the higher level of activity.

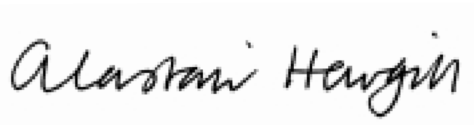
Treasury policy Financing, financial risk hedging and tax planning are managed centrally. Hedging activities are designed to protect profits, not to speculate. Substantial changes to the financial structure of the Group or treasury practice are referred to the Board. There were no substantial changes during the year.

A portion of the transactions of subsidiaries in foreign currencies are hedged 12 months forward. Forward foreign exchange contracts at 31 December 2002 totalled £27 million (2001: £30 million). Translation of foreign currency profits and interest rates are not normally hedged. Foreign currency net assets are not hedged other than by normal Group borrowing.

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

Financing activities The average cost of borrowing for the year was 5.2% (2001: 6.1%). Net interest cover (before goodwill amortisation and exceptional items) remained high at 15 times (2001: 12 times) despite the lower profits. The Group's three year committed facilities were renewed during 2002 and now expire in October 2005.

UK pensions The Group contributes to two UK defined-benefit pension schemes. Under the FRS 17 reporting standard for company accounts, the schemes had a combined deficit as at 31 December 2002 of £4.0 million (2001: surplus £1.7 million). However, using an actuarial valuation basis broadly consistent with the last valuation carried out in April 2001 for ongoing funding purposes, the funding deficit as at 31 December 2002 was lower, at £2.7 million. The Group is increasing its contributions to the schemes by £125,000 per annum (some 20% over current Group contribution levels). It is believed that this action, along with an improvement in financial conditions, will mitigate the shortfall over a number of years. The position will be kept under review until the next actuarial valuation which is due as at 5 April 2004.



Alastair Hewgill
Finance director

Directors & advisors

Alison Carnwath
BA, ACA
Chairman, non-executive, independent, British, aged 50, appointed to the Board on 22 January 1996; member of the Audit committee, the Remuneration committee and the Nominations committee. Currently a non-executive director of Gallaher Group plc, Friends Provident plc, Nationwide Building Society plc and Man Group plc.

Gareth Rhys Williams
BSc, MBA
Chief executive, British, aged 41, appointed to the Board on 23 November 2001. Previously Regional Managing Director, Central Europe, of BPB plc. Prior to this he held senior management positions with Rexam plc, responsible for their European film coating business, and for NFI Electronics.

Alastair Hewgill
BSc, ACMA
Finance director, British, aged 48, appointed to the Board on 14 May 2002. Previously he held senior finance positions within GKN plc over a period of 11 years, including Finance director of GKN Aerospace Division and Head of corporate finance for the group.

David Bell
MA
Non-executive, independent, British, aged 56, appointed to the Board on 12 March 1997; the senior non-executive director; member of the Audit 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 59, appointed to the Board on 1 February 1999; Chairman of the Audit committee and member of the Remuneration committee. Formerly a director of the TI Group plc until his retirement at the end of 1998. Currently President and Chief executive officer of Oxford Automotive, Inc.

Will Wyatt
CBE, BA
Non-executive, independent, British, aged 61, appointed to the Board on 10 June 2002; member of the Audit committee and Chairman of the Nominations committee; currently Chairman of Human Capital Limited, President of the Royal Television Society, Chairman of the London Institute and Governor of Magdalen College School, Oxford. Formerly Chief Executive, BBC Broadcast. Other posts within the BBC included Managing director of Network Television.

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

Financial advisors and stockbrokers
UBS Warburg

Auditors
KPMG Audit Plc

Bankers
HSBC
The Royal Bank of Scotland plc
Wachovia Bank NA

Marketmakers in Company shares
KBC Peel Hunt
Merrill Lynch International
UBS Warburg
Winterflood Securities

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

Directors' report

The directors present their report and the audited accounts of the Group for the year ended 31 December 2002.

Review of the Group and its activities

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

Results and dividends

Group profit on ordinary activities before taxation amounted to £16.6 million (2001: £24.2 million).

The directors recommend a final dividend of 16.6p per share (2001: 16.6p). If approved, the dividend per share for the year will total 22.7p (2001: 22.7p). Subject to approval by shareholders, the final dividend will be paid on 22 May 2003 to shareholders on the register on 25 April 2003.

Post balance sheet events

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

On 18 February 2003 the Group acquired the shares of Radamec Broadcast Systems Limited in the UK, and acquired the operating assets and some of the liabilities of Radamec Inc in the USA, from Radamec Group PLC for £4.65 million in cash.

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, development and engineering

The management of the Group recognises that new products are essential to its long-term success and considerable emphasis is placed on active product development programmes in the manufacturing companies. In 2002 those companies spent £7.5 million (2001: £7.6 million) on research and development.

Share capital

Details of shares issued during the year are set out in note 21 to the accounts on page 56. An analysis of shareholdings is shown on the inside back cover. The middle market price of a share of the Company on 31 December 2002, the last day of dealing in 2002, together with the range during the year is also shown on the inside back cover.

Substantial shareholdings

As at 5 March 2003, the Company had been notified of the following interests of 3% or more of its issued share capital:

Interest by	Number of shares	%
Prudential plc	5,019,618	12.23%
Baring Trustees (Guernsey) Ltd	2,698,374	6.58%
Manfrotto SA	2,478,374	6.05%
Legal & General Investment Management Limited	1,645,736	4.01%
Post Office Pensions Trustees Limited and Possfund Custodian Trustee Limited	1,719,537	4.19%
Aviva Plc (formerly CGNU PLC)	1,559,991	3.80%
Britel Fund Trustees	1,765,852	4.31%
Hermes Focus Asset Management Limited and Hermes Investment Management Limited	1,556,234	3.80%

Directors

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

Alastair Hewgill was appointed a director and the Finance director on 14 May 2002 following the resignation of Richard Green on 13 May 2002. Will Wyatt was appointed a director on 10 June 2002. Michael Stacey resigned as a director on 25 October 2002. The other directors were directors for the whole of the year. The remuneration of the directors is set out in the Remuneration report on pages 19 to 25.

Photographs and biographies of the current directors are set out on page 15.

Directors' shareholdings

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 are shown as at 31 December 2002 and 1 January 2002 or subsequent date of appointment. Details of the Directors' other interests in the Company's shares are set out in the Remuneration report on pages 19 to 25.

Directors' shareholdings

	31 December 2002	1 January 2002 or subsequent date of appointment
Chairman		
Alison Carnwath	35,000	5,000
Executive Directors		
Gareth Rhys Williams	10,000	10,000
Alastair Hewgill	6,000	–
Non-executive Directors		
David Bell	–	–
John Potter	3,000	3,000
Will Wyatt	–	–
	54,000	18,000

Payments to suppliers

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

Committees of the Board

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

Corporate social responsibility report

The Group's report on social, environmental and ethical matters is set out on pages 26 to 28. Group policies have been formulated in the following key areas: employment (including employees and employee communication), environment, human rights, community impact and involvement, relationships with suppliers, customers and other stakeholders.

Donations

During the year, charitable donations were made totalling £23,271 (2001: £69,285). No donations were made to any political party. For further information on donations refer to the section on Community impact and involvement set out in the Corporate social responsibility report on pages 26 to 28.

Annual general meeting

The annual general meeting for 2003 will be held on Thursday 1 May 2003 at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 2PB. The notice of meeting and a proxy card are enclosed.

The Company's registrar, Capita Registrars, has recently introduced a new electronic voting facility. The Company will be making use of this facility. For further information please refer to the section in Shareholder enquiries and electronic voting set out on the inside back cover.

The business of the annual general meeting will include the consideration by shareholders of the report and accounts for the year ended 31 December 2002, the Remuneration report, the proposed dividend, the election of Alastair Hewgill and Will Wyatt, the re-election of David Bell as director, the re-election of auditors and the following further items of business.

A resolution renewing the directors' authority to allot shares for cash, as if the pre-emption provisions of Section 89 of the Companies Act 1985 did not apply, 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 6 March 2003. The authority will expire at the end of the Company's next annual general meeting or, if earlier, on 1 August 2004. 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 first passed at the annual general meeting in 1998 and renewed by shareholders at subsequent annual general meetings. The directors believe it is desirable to have the power to make market purchases in the event of suitable opportunities arising. Accordingly, a resolution to again renew the authority will be proposed at the annual general meeting. The authority to purchase shares would only be exercised if there was a resultant increase in earnings per share and it would be in the best interests of the Company.

The Chairmen of the Board, of the Audit Committee and of the Remuneration Committee will be in attendance at the annual general meeting to answer questions from shareholders.

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
6 March 2003

Remuneration report

This report contains the information required under Schedule B of the Combined Code and under the Directors' Remuneration Report Regulations 2002. A resolution to approve the report will be proposed at the 2003 annual general meeting. The Chairman of the Remuneration committee will be available to answer questions about directors' remuneration at the Company's annual general meeting.

Remuneration committee

During the year, the Remuneration committee comprised David Bell (Chairman of the Committee), Alison Carnwath, John Potter and Will Wyatt, being all of the independent non-executive directors. The Chief executive, Gareth Rhys Williams, attends the meetings by invitation of the Committee except when his remuneration is being considered. Michael Stacey was a member of the Committee until his resignation in October 2002. On 4 March 2003, the membership of the Committee was reviewed and reconstituted to comply with the recommendation in the Higg's Report into the role and effectiveness of non-executive directors that no one non-executive director should sit on all three principal board committees. Therefore, with effect from 4 March 2003, the Renumeration committee comprised David Bell (Chairman of the Committee), Alison Carnwath and John Potter.

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

The remuneration of the non-executive directors is determined by the Board as a whole with the relevant non-executive director abstaining when his or her remuneration is considered.

Remuneration policy

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

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

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

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

The Committee currently has no intention of amending the above stated policy for 2003 and future years, although it will be reviewed from time to time.

When reviewing and determining executive and non-executive directors remuneration advice is sought and received externally from remuneration and benefit consultants and their various surveys of remuneration and fees and also internally from the Chief executive, Gareth Rhys Williams, and the Company secretary, Roland Peate. During 2002 independent advice has been received by the Committee from Mercer Human Resource Consulting and Monks Partnership. SCA, prior to its acquisition by Mercer Human Resource Consulting, and Monks Partnership have, for a number of years, provided the Committee and the Company with salary, incentive and benefit advice although neither firm has been formally appointed. Since the end of 2002, Towers Perrin has been formally appointed and has provided advice to the Committee.

During the latter part of 2002 a major review of salaries, bonus and incentive awards was undertaken in conjunction with Monks Partnership. The review, which covered the Group's operations worldwide, examined and compared the remuneration paid by way of base salary and bonus to the senior employees of all the companies in the Group with that paid to other companies external to the Group taking into account the business sector, size, number of employees, areas of operation and international spread.

Chairman and the other non executive directors

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

Executive directors

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

Gareth Rhys Williams, Chief executive, aged 41, is employed under a service contract dated 23 November 2001. The notice period by the Company under his contract is 12 months; notice by the employee is 6 months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to twelve months' gross basic salary together with the gross value of the other benefits that he is entitled to receive under his service contract, but excluding pension contributions and any bonus. The bonus arrangements for 2003 will be calculated on the basis that 70% relate to the achievement of operating profit targets and 30% relate to specific personal objectives. The unexpired term of Gareth Rhys Williams' contract, to his normal retirement date, is 19 years.

Alastair Hewgill, Finance director, aged 48, is employed under a service contract dated 17 April 2002. The notice period by the Company under his contract is 12 months; notice by the employee is 6 months. The Company may, in the event of termination of employment, pay a sum in lieu of notice equal to twelve months' gross basic salary together with the gross value of the other benefits that he is entitled to receive under his service contract, but excluding pension contributions and any bonus. The Remuneration committee has determined that bonus arrangements for 2003 are to be calculated on the basis that 70% relate to the achievement of operating profit targets and 30% relate to specific personal objectives. The unexpired term of Alastair Hewgill's contract, to his normal retirement date, is 11 years.

Richard Green resigned as a director on 13 May 2002 and left the Company on 30 June 2002. Richard Green was employed under a service contract dated 2 March 1992 that required the company to give 18 months' notice of termination.

Incentive arrangements

During 2002 four new incentive arrangements were adopted by shareholders. Those new arrangements were the 2002 Executive Share Option Scheme, the 2002 Unapproved Executive Share Option Scheme, the 2002 Sharesave Scheme and the 2002 International Plan.

To align the rewards of executive directors and other senior employees more closely with the objectives and interests of shareholders, the performance conditions applicable to the 2002 Executive Share Option Scheme, the 2002 Unapproved Executive Share Option Scheme and the Long Term Incentive Plan relate to increases in earnings per share over a performance period. There is no re-testing of performance in respect of grants or awards.

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

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

The Group currently has the following incentive arrangements in place:

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

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

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

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

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

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

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

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

Deferred bonus plan Under the plan, an eligible executive may defer between 10% and 50% of his cash bonus in exchange for receiving an award over shares in the Company with a value equivalent, at the date of award, to the amount of the deferred bonus. An award may, in normal circumstances, be exercised by a participant after 2 years. However, if exercise is deferred until after 3 years and the executive remains employed by the Group, the participant is entitled to receive additional shares equal in number to those comprised in the award. The first awards under the plan were made in April 2001 in respect of bonuses for the year 2000. No awards have been made since.

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

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

Deferred bonus plan The Executive directors do not currently have any awards under the Deferred bonus plan. In April 2001, Richard Green deferred £28,125 (representing 50%) of his bonus for 2000 in return for an award of 5,769 shares under the Deferred bonus plan. On his resignation, he retained his award but, to ensure consistency of approach in respect of directors who leave the Company, his entitlement to a matching award was scaled down from 5,769 shares to 2,404 shares by the trustee of the trust that administers the plan upon recommendation from the Remuneration committee. On 6 December 2002 Mr Green exercised both his award of 5,769 and his scaled down matching award of 2,404 shares.

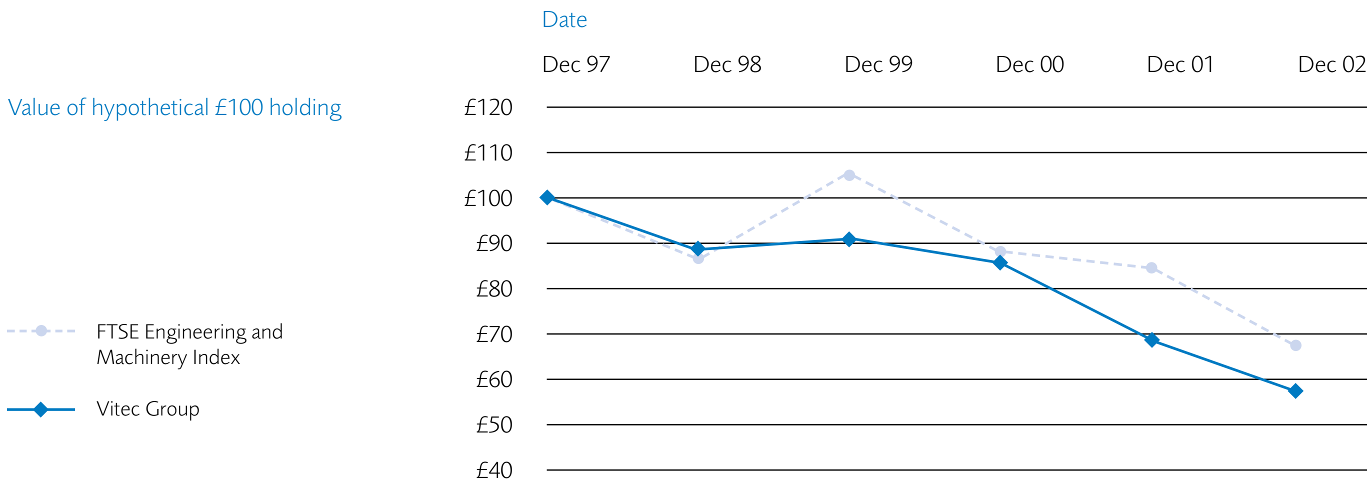
Pensions related remuneration

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

Five year share price performance 1998-2002

Under the requirements of the Directors' Remuneration Report Regulations 2002, the Company is required to include a graph showing the Company's performance compared to an appropriate index. Set out below, the graph illustrates the Company's annual Total Shareholder Return (share price growth plus dividends that have been declared, paid and reinvested in the Company's shares) relative to the FTSE Engineering and Machinery Index) for the five year period 1998-2002, assuming an investment of £100. The Engineering and Machinery Index is the broad market index that includes the Company and comprises comparable companies.

Five-year historical total shareholder return performance
Change in the value of a hypothetical £100 holding over five years
FTSE Engineering and Machinery Index comparison based on 30 trading day average values



The following information has been audited.

Directors' emoluments and compensation

For her non-executive duties the Chairman, Alison Carnwath, currently receives a fee of £78,000 per annum, increased from £75,000 per annum with effect from 1 January 2003. The non-executive directors receive a fee of £25,000 per annum, increased from £20,000 per annum with effect from 1 April 2002. The chairmen of the Remuneration committee and of the Audit committee, David Bell and John Potter, respectively, receive an additional £2,500 per annum fee for their services as chairmen of those committees. The Chairman is a member of the Group's medical insurance scheme, the premiums for which are paid by the Company. The non-executive directors do not receive any other benefits from the Company.

Gareth Rhys Williams, Chief executive, currently receives an annual salary of £260,000, increased from £250,000 with effect from 1 January 2003. Mr Rhys Williams is a member of the Vitec Group Executive Pension Scheme and contributes 7% of his salary up to the earnings cap. That pension scheme is a defined benefit scheme, the accrual rate for which is one fortieth of his pensionable salary for each year of pensionable service. In accordance with his service contract, the Company makes contributions up to a maximum of 24% of his annual salary in excess of the earnings cap from time to time to his funded unapproved retirement benefits scheme. In addition, a guaranteed pension-related bonus of 16% of his annual salary in excess of the earnings cap from time to time is paid to him. He is eligible for a performance-related bonus, based on Company and individual performance, of up to 100% of base salary each year. In respect of 2002, 50% of the bonus was conditional upon the Group's performance and 50% was based on personal performance targets. Mr Rhys Williams received no bonus in respect of 2001 but for the year 2002 was awarded a bonus of £100,000.

Alastair Hewgill, Finance director, currently receives an annual salary of £155,000, increased from £150,000 with effect from 1 January 2003. Mr Hewgill is a member of the Vitec Group Executive Pension Scheme and contributes 7% of his salary. That pension scheme is a defined benefit scheme, the accrual rate for which is one fortieth of his pensionable salary for each year of pensionable service. Mr Hewgill is eligible for a performance-related bonus, based on Company and individual performance, of up to 100% of base salary each year. In respect of 2002 he was awarded a discretionary bonus of £27,000.

Details of the directors' emoluments and compensation for 2002 with comparatives for 2001 are set out in the table below:

Director's name	Salaries and fees 2002 £	Salaries and fees 2001 £	Benefits (Note 1) 2002 £	Benefits (Note 1) 2001 £	Performance related annual bonus 2002 £	Performance related annual bonus 2001 £	Pension related bonus (Note 2) 2002 £	Pension related bonus (Note 2) 2001 £	Termination payments (Note 3) 2002 £	Termination payments (Note 3) 2001 £	Total 2002 £	Total 2001 £
Chairman												
Alison Carnwath	75,000	175,000	468	280	–	–	–	–	–	–	75,468	175,280
Executive directors												
Gareth Rhys Williams	250,000	31,943	20,884	632	100,000	–	24,523	2,622	–	–	395,407	35,197
Alastair Hewgill	94,828	–	4,335	–	27,000	–	–	–	–	–	126,163	–
Philip Cushing	–	165,217	–	4,857	–	–	–	–	–	395,768	–	565,842
Richard Green	58,810	162,000	4,891	12,137	–	–	–	19,116	323,862	–	387,563	193,253
Non-executive directors												
David Bell	26,250	22,500	–	–	–	–	–	–			26,250	22,500
Lino Manfrotto	–	12,000	–	–	–	–	–	–	–	–	–	12,000
John Potter	26,250	22,500	–	–	–	–	–	–			26,250	22,500
Michael Stacey	19,200	20,000	–	–	–	–	–	–			19,200	20,000
Will Wyatt	14,041	–	–	–	–	–	–	–			14,041	–
	564,379	611,160	30,578	17,906	127,000	–	24,523	21,738	323,862	397,768	1,070,342	1,048,572

Notes

1. The principal benefits are a company car, fuel, medical insurance and life assurance. In respect of Gareth Rhys Williams only, a cash payment of £1,200 per month in lieu of a company car and a contribution of £400 per month to a permanent health arrangement are included in the figures shown for benefits.
2. Gareth Rhys Williams receives a pension–related bonus calculated at 16% of his annual salary in excess of the pensions earnings cap from time to time.
3. Information on termination payments is set out below.

During the year the highest paid director was Richard Green who received £431,188, including termination payments totalling £323,862 and a gain of £43,625 on the exercise of a share option (2001: Philip Cushing received £565,842).

Excluding termination payments, the highest paid director was Gareth Rhys Williams who received £395,407 (2001: Richard Green £193,253).

In 2001 the highest paid director was Philip Cushing, who received £565,842, including £395,786 paid in respect of the termination of his employment. Mr Cushing's salary and benefits were for the period commencing 1 January 2001 up to 22 July 2001, the date of his resignation. Mr Cushing's salary included payment in lieu of a company car for the period 1 April 2001 to 22 July 2001 inclusive. He received 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, in respect of his salary and benefits and £71,840 was paid into his 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.

Mr Green received compensation payments totalling £318,432 upon termination, before deduction of income tax and National Insurance. That payment included payments in lieu of salary, bonus, company car benefit, pension related bonus and contributions to Mr Green's FURBS and represented the Company's mitigated liability, shortened to 15 months, under his service contract. In addition, £5,340 was paid direct to Mr Green's legal adviser in respect of advice he received in connection with the negotiation of his termination arrangements.

Lino Manfrotto's fee for 2001 was for the period commencing 1 January 2001 up to his retirement on 8 August 2001.

Directors' share options

	Date of grant	At 1 January 2002	Number of shares Options exercised or lapsed during year	Options granted during year	At 31 December 2002 or, if earlier, date of resignation as a director	Exercise price (pence)	Market price at exercise date (pence)	Date from which exercisable	Expiry date
Gareth Rhys Williams									
Executive share options									
1996 Unapproved	Sep 2002	–	–	142,857	142,857	350	–	Sep 2005	Sep 2012
SAYE options	Nov 2002	–	–	2,451	2,451	268	–	Jan 2008	Jun 2008
		–	–	145,308	145,308				
Richard Green (resigned 13 May 2002)									
Executive share options									
1984 Approved	Apr 1992	25,000	25,000	–	–	268	442.5	Apr 1995	Apr 2002
1994 Approved	Apr 1995	7,000	–	–	7,000	512	–	Apr 1998	Apr 2005
1996 Unapproved	Oct 1996	27,305	–	–	27,305	694	–	Oct 1999	Oct 2006
1996 Unapproved	Apr 1998	14,344	–	–	14,344	653	–	Apr 2001	Apr 2008
SAYE options	Jun 2000	4,095	4,095	–	4,095	412	Lapsed	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	29,095	–	112,247				

Notes

1. In November 2001, a share price related cash bonus scheme was adopted under which an award equivalent to an option over 142,857 shares, at a price of £3.50 per share, was made to Gareth Rhys Williams. This was replaced on 19 September 2002 by an equivalent option over 142,857 shares at the same exercise price of £3.50 per share under the Rules of the (1996) Unapproved Executive Share Option Scheme, the Scheme used as the comparable for the cash bonus scheme. There is a transitional arrangement for the cash bonus scheme to run in tandem with the share option. If, and to the extent that, the cash bonus is not triggered by Mr Rhys Williams prior to the first occasion upon which he becomes entitled to exercise the share option granted on 19 September 2002, the cash bonus scheme will lapse and will be replaced by the share option.
2. When Richard Green left the Company the Remuneration committee agreed that he could retain the executive options granted to him and, subject to satisfaction of the performance condition, would be entitled to exercise them subject to the rules of the schemes within the period of 6 months from the termination date of 30 June 2002. That period has now expired and the options have now lapsed. The options granted to him under the Premium option plan have been scaled down by the Remuneration committee in accordance with the rules of the plan. They may be exercised, subject to the satisfaction of the relevant performance conditions for each tier, up to the first anniversary of the relevant cut off dates, which are 3 years for tier 1 and 5 years for tier 2.
   Non-executive directors are not eligible to participate in the Company's share option or share incentive schemes and consequently they do not hold any share options or other share incentives.
3. The total gain on the exercise of options by the directors was £43,625. The only director who exercised an option during 2002 was Richard Green. In 2001 there were no share options exercised by directors.
4. The share price at the end of the year and the highest and lowest share prices during the year are set out on the inside back cover.
5. No non-executive directors held share options.

Directors' long term incentives

Awards under the long term incentive plan

	Date of award	Market price of a share at the date of award (p)	Awards at 1 January 2002 (shares)	Awards exercised or lapsed during the year (shares)	Awards made during the year (shares)	At 31 December 2002 or date of resignation as a director (shares)
Gareth Rhys Williams	Mar 2002	442.5	–	–	28,248	28,248
Alastair Hewgill	Sep 2002	342.5	–	–	21,898	21,898
Richard Green	Dec 1999	542.0	14,004	–	–	14,004
	Oct 2000	546.0	1,996	–	–	1,996
	Apr 2001	472.5	17,143	–	–	17,143
	Mar 2002	442.5	–	–	18,305	18,305
			33,143	–	68,451	101,594

When Mr Green left the Company his awards under the Long term incentive plan were scaled down by the Remuneration committee in accordance with the rules of the plan.

Pensions related remuneration

	Accrued pension at 31 December 2002	Accrued pension at 31 December 2001	Increase in accrued pension (in excess of price inflation) during 2002	Increase in accrued pension (in excess of price inflation) during 2001	Member contributions towards pension 2002	Member contributions towards pension 2001	Transfer value of the increase in accrued pension net of member contributions 2002	Transfer value of the increase in accrued pension net of member contributions 2001	Transfer value of accrued pension at 31 December 2002	Transfer value of accrued pension at 31 December 2001	Increase in transfer value over year to 31 December net of member contri-butions 2002
Executive directors											
Gareth Rhys Williams	2,633	199	2,434	199	6,773	557	7,196	920	15,444	1,412	7,259
Philip Cushing	–	2,981	–	1,401	–	–	–	17,310	–	–	–
Richard Green	25,110	23,453	1,657	2,511	3,400	11,130	10,904	22,220	274,858	307,173	(35,715)
Alastair Hewgill	1,890	–	1,890	–	6,125	–	9,802	–	16,234	–	10,109

Beyond the earnings cap, the cost of pensions comprised defined contribution payments to FURBS as follows: Gareth Rhys Williams £36,780 (2001: for the period from commencement of employment on 23 November 2001 to 31 December 2001, £3,945). Richard Green for the period from 1 January 2002 to the date of his leaving on 30 June 2002 £8,548 (2001: £28,674).

By order of the Board
Roland Peate
Secretary
6 March 2003

Corporate social responsibility report

This is the Group's first detailed report on its social responsibility although it has, for many years, taken a caring and considerate approach to social, environmental and ethical matters throughout its operations worldwide. The Group regards compliance with all relevant laws and guidelines as important and socially responsible. The Group's current system of risk management and control, which includes social responsibility matters, is led by the heads of each of the Group's operations. Those people are responsible at local level for complying with the relevant environmental regulations in all the geographical areas in which they operate. They regularly report to the Board through the Group's Finance director on such issues as part of the Group's system of internal control and risk management reporting.

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

1. Employment

Policy

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

Actions

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

We recognise the importance of involvement, motivation, training and development of our employees at all levels to enable the Group to become even more market aware and customer focused. The importance of good communication and working relationships is also recognised and actively encouraged. The Group's website provides a useful information exchange for shareholders and employees alike.

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

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

A major survey of salary and benefits of employees in companies has taken place during 2002 and adjustments made to salaries within the Group, where appropriate.

The Group operates in many countries and our employment policies, which are designed to meet local conditions and requirements, are established on the basis of the best practices in each country in which it operates. The Group's wide geographical spread provides opportunities for employees to work either short term or on secondment for longer periods of time at the Group's various locations.

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

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

Health and safety

A formal system for the recording of accident statistics was introduced in the latter part of 2002 and, therefore, accident statistics are not available for the whole of the year. We will report accident statistics in the report and accounts for 2003.

2. Environment

Policy

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

Actions

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

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

Examples include the use of energy saving light bulbs, electronic timers to control the use of heating, lighting and air-conditioning systems, preference for the use of low emission and diesel vehicles, waste minimisation and the recycling of paper and toner and laser cartridges, the use of recycled stationery products, the use of environmentally friendly printing processes, the encouragement of staff to recycle packaging including bottles and aluminium cans, the use by the Group's cleaning contractors to use environmentally friendly products, the recycling of used stamps for donation to the Royal National Institute for the blind and greater use of video and telephone conferencing in place of travel.

In addition, 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 also enables them to reduce their use of non-reusable products. Manfrotto has eliminated all electrical transformers containing polychlorinated biphenyls (PCB) and removed any potentially harmful building materials from the majority of its facilities. Under Italian law there are 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.

During 2002 the Group head office joined the New Leaf Scheme. This is a paper recycling scheme which aims to 'close the loop' on paper sourcing. Recycled paper is used in printers, photocopiers and faxes. A recycling company, recommended by New Leaf, then collects any waste paper to produce further recycled paper. Redundant computer equipment was also donated to New Leaf this year for recycling.

Clear-Com has phased out flow solder operations, thereby reducing emissions.

Anton/Bauer is part of a battery recycling scheme in conjunction with the Rechargeable Battery Recycling Corporation. The RBRC governs the safe disposal or reclamation of battery cells for battery manufacturers throughout the world.

Vinten have reviewed the dust and vapour extraction systems in their facilities and, during 2003, propose to refurbish their extraction systems to maintain optimum performance. Vinten intends to achieve ISO 14001 by Autumn 2003 at their manufacturing site in Bury St Edmunds. This will mean that its operations will be assessed by an independent third party to ensure that they operate to an environmental management system within the requirements of British Standards.

Energy usage by the Group in 2002

Electricity usage (in kilowatt hours)	Gas usage (in kilowatt hours)	Water usage (in cubic metres)
7,442,845	6,499,615	23,768

This is the first year in which these statistics have been published. It is possible that, although care has been taken to ensure their accuracy, there may be some minor incompleteness in the reporting from overseas parts of the Group. The gathering of these statistics is being refined.

3. Human rights

Policy

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

Actions

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

4. Community impact and involvement

Policy

To contribute to local worthwhile causes and charities and to ensure that the Group's operations cause minimal negative impact within the community. Donations are usually, and have been in the past, primarily to childrens', cancer, police, fire brigade, drug rehabilitation and other similar charities.

Actions

For many years the Group has contributed to worthwhile causes. However, the Group's charity committee reviews all written requests for donations and decides on the level of donation and the charities to which donations are made.

During the year 2002 charity donations were made to 51 charities. The total amount donated by the Company totalled £23,271. In 2001, donations totalling £400 were made to the Alzheimer's Society and the Cancer Research Campaign and a special donation of US$100,000 (equivalent to £68,885) was made to the Twin Towers Fund following the tragedy on 11 September 2001. Donations totalled £38,789 in 2000 and £39,305 in 1999. Like all companies, the Group has limited resources and the amount of money available for charitable purposes will vary from time to time.

5. Relationships with suppliers, customers and other stakeholders

Policy

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

Actions

As stated in the Directors' report, the Group's policy with suppliers is that individual subsidiary companies are responsible for negotiating terms and conditions under which suppliers operate. Once agreed, payments to suppliers are made in accordance with those terms and conditions, subject always to the supplier having complied with them. That policy has been in place for a number of years and will continue for the financial year ending 31 December 2003. We continue to review and take action where appropriate to ensure the reliable and consistent sources of quality materials from which our products are made.

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

Corporate governance

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

In addition, the recently published Higgs Report into the Role and Effectiveness of Non-executive Directors and the report by Sir Robert Smith relating to Audit Committees and the Combined Code have been reviewed and appropriate action is being taken where required to implement the recommendations. The disclosures set out below incorporate some of the recommendations from those reports.

Statement of compliance

The Board considers that it has complied with the Code throughout the year ended 31 December 2002 with the exception of Code provision B.1.7 with which non-compliance, and the reason for such non-compliance, is set out in the relevant section below. References in parentheses are to the relevant paragraph 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 on average six times a year and there is a formal schedule of matters and levels of authority which are delegated to the executive directors, all other matters and powers being reserved to the Board. With the exception of Mr Bell, who attended all but two Board meetings, during 2002 all directors attended all the Board meetings.

Non-executive directors – the Board included five non-executive directors until Michael Stacey's resignation on 25 October 2002. From that date, for the remainder of the year, there were four non-executive directors. All non-executive directors are considered to be independent.

Executive directors – the Board included two executive directors throughout the year 2002. Gareth Rhys Williams was a director and the Chief executive throughout the year. Alastair Hewgill was appointed a director and the Finance director on 14 May 2002 following Richard Green's resignation on 13 May 2002. Mr Green had a service contract requiring the Company to give 18 months' notice of termination (B.1.7).

The directors bring independent judgement to bear on strategic matters, the performance of the Group, the adequacy of resources and standards of conduct. The roles of the Chairman (who is non-executive) and of the Chief executive are separate. David Bell is the senior independent director and his biographical details are shown on page 15. Outside of Board meetings, the non-executive directors maintain regular contact by telephone. In 2003, two meetings of all the non-executive directors are planned.

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. Further information is supplied from time to time when requested by the Board.

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 during 2002 are shown on page 15. However, the terms of reference and the members of the Committees are being reviewed, in the light of the Higgs report and the report by Sir Robert Smith, and appropriate changes are being made.

Audit committee

The members of the Audit committee and their biographical details are shown on page 15. The Committee is chaired by John Potter. At least two meetings are held each year and, during 2002, this was the case. Further meetings are held as and when the Committee consider appropriate. However, for 2003 and future years the Committee, excluding the Executive directors, will also hold a meeting with the auditors.

The responsibilities of the Committee are:

1. to consider the appointment of the external auditor and assess independence of the external auditor, ensuring that key partners are rotated at appropriate intervals;

2. to recommend the audit fee to the board and preapprove any fees in respect of non audit services provided by the external auditor and to ensure that the provision of non audit services does not impair the external auditors' independence or objectivity;

3. to discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;

4. to oversee the process for selecting the external auditor and make appropriate recommendations through the Board to the shareholders to consider at the annual general meeting;

5. to review the external auditor's management letter and management's response;

6. to review any internal audit programme and ensure that any internal audit function is adequately resourced and has appropriate standing within the Company;

7. to consider management's response to any major external or internal audit recommendations;

8. to approve the appointment or dismissal of the head of internal audit;

9. to review the Company's procedures for handling allegations from whistleblowers;

10. to review management's and the internal auditor's reports (if any such function) on the effectiveness of systems for internal financial control, financial reporting and risk management;

11. to review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board, paying particular attention to:

    a. critical accounting policies and practices, and any changes in them

    b. decisions requiring a major element of judgement

    c. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed

    d. the clarity of disclosures

    e. significant adjustments resulting from the audit

    f. the going concern assumption

    g. compliance with accounting standards

    h. compliance with stock exchange and other legal requirements

    i. reviewing the company's statement on internal control systems prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks by the company; and

12. to consider other topics, as defined by the Board.

The Committee has formal terms of reference and is authorised by the Board to investigate any activity within those terms of reference. It is also authorised to seek any information it requires from any employee and all employees are required to co-operate with any request made by the Committee. The Committee may obtain outside legal and other independent professional advice, at the Company's expense, if it considers this necessary. The need for an internal audit function is regularly reviewed and considered by the Committee. At the present time the Committee is of the view that such a function is not required.

Remuneration committee

The members of the Remuneration committee and their biographical details are set out on page 15. The Committee is chaired by David Bell. During 2002, the Committee met five times. The report of the Remuneration committee is set out on pages 19 to 25.

Nominations committee

A Nominations committee chaired by Will Wyatt is delegated authority by the Board to deal with succession planning and making recommendations to the Board on all new Board appointments. During 2002, the committee met three times.

Appointments and re-elections to the Board

The Chairman and the non-executive directors are normally appointed for an initial period of three years which, with the approval of the Nominations committee and the Board, would usually 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. During the year, up to the date of his resignation, Michael Stacey was a member of the Nominations committee.

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. David Bell, the senior non-executive director, will retire and will be proposed for re-election at the annual general meeting 2003. The directors believe it is in the interests of the Group for him to continue for a further period. Alastair Hewgill and Will Wyatt will stand for election, having been appointed directors since the last annual general meeting.

The Chairman and Mr Bell, both non-executive directors, have now served for seven years and six years, respectively. As a result of their significant business experience and detailed knowledge of the Group they have been asked, and have agreed, to continue in their current roles for a further period. This allows the Board and the Nominations Committee to give further detailed consideration to succession planning taking into account the experience, knowledge and skills required to fulfil the roles.

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 in the year. The Executive directors meet with shareholders from time to time during the year. The directors also meet with shareholders at the Company's annual general meeting.

In October 2002, the Group arranged for investors to meet the senior management in informal surroundings. The event included a visit to one of the Group's users in Norwich and to the Vinten manufacturing site in Bury St Edmunds.

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 and risk management

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 executive of each division. In addition, at the end of each year, businesses formally review, in detail, all of their business risks and their internal controls, including finance, cash, IT, sales, purchasing and logistics. They then prepare statements that describe the extent of their compliance with control objectives. These statements are approved by the Chief executive officer and Chief financial officer of each operating unit and submitted to Group executive management for review. Any significant matters arising from this review are formally reported to the Board by the 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 monthly budgets. Forecasts are revised where necessary but formally at least once every quarter. Any significant changes and adverse variances are questioned by the Group executive directors and remedial action is taken where appropriate. Group tax and treasury is co-ordinated centrally. There is weekly cash and treasury reporting to Group financial management and periodic reporting to the Board on the Group's tax and treasury position.

The Board considers that it has fully complied during the year and up to the date of approval of the annual report and accounts with the Code (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 34 to 62. We have also audited the information in the directors' Remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual report and the directors' Remuneration report. As described on page 32, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on page 29 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and

- the financial statements and the part of the directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
6 March 2003

Consolidated profit and loss account

For the year ended 31 December 2002

	Notes	2002 Before exceptional items and goodwill amortisation £m	2002 Exceptional items £m	2002 Goodwill amortisation £m	2002 Total £m	2001 Restated[1] Total £m
Turnover	3	182.2	–	–	182.2	190.4
Cost of sales		(95.2)	–	–	(95.2)	(94.0)
Gross profit		87.0	–	–	87.0	96.4
Net operating expenses	4/5	(62.3)	(5.8)	(0.9)	(69.0)	(66.7)[2]
Operating profit	6	24.7	(5.8)	(0.9)	18.0	29.7
Profit on sale of fixed assets	5	–	0.2	–	0.2	0.8
Amounts written off investments	5	–	–	–	–	(3.7)
Profit on ordinary activities before interest		24.7	(5.6)	(0.9)	18.2	26.8
Net interest payable	23	(1.6)	–	–	(1.6)	(2.6)
Profit on ordinary activities before tax		23.1	(5.6)	(0.9)	16.6	24.2
Tax on profit on ordinary activities	9	(9.1)	–	–	(9.1)	(10.7)
Profit on ordinary activities after tax and for the financial year		14.0	(5.6)	(0.9)	7.5	13.5
Dividends	10				(9.3)	(9.3)
Retained (loss)/profit for the year transferred to reserves	22				(1.8)	4.2
Basic earnings per share	11				18.3p	32.9p
Diluted earnings per share	11				18.3p	32.9p
Adjusted basic earnings per share	11				34.1p	42.9p

(1) See note 1 on page 38
(2) Net operating expenses during the year ended 31 December 2001 included £0.9 million of goodwill amortisation

All of the above results relate to continuing operations.

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

Balance sheets

As at 31 December 2002

	Notes	Group 2002 £m	Group 2001 Restated[1] £m	Company 2002 £m	Company 2001 £m
Fixed assets					
Intangible assets	12	11.0	10.8	–	–
Tangible assets	13	42.7	48.5	2.2	2.3
Investments	14	0.5	–	144.8	129.0
		54.2	59.3	147.0	131.3
Current assets					
Stocks	15	30.5	33.6	–	–
Debtors	16	37.0	34.3	2.3	3.5
Cash at bank and in hand	23	16.1	17.8	2.3	8.2
		83.6	85.7	4.6	11.7
Creditors – due within one year	17	(36.8)	(64.8)	(48.3)	(50.8)
Net current assets/(liabilities)		46.8	20.9	(43.7)	(39.1)
Total assets less current liabilities		101.0	80.2	103.3	92.2
Creditors – due after more than one year	17	(24.3)	(4.5)	(24.0)	(1.5)
Provisions for liabilities and charges	19	(13.8)	(8.6)	(0.1)	(0.1)
Net assets		62.9	67.1	79.2	90.6
Capital and reserves					
Called up share capital	21	8.2	8.2	8.2	8.2
Share premium account	22	2.6	2.5	2.6	2.5
Capital redemption reserve	22	1.6	1.6	1.6	1.6
Revaluation reserve	22	1.5	1.5	0.9	0.9
Other reserves	22	–	–	53.7	53.7
Profit and loss account	22	49.0	53.3	12.2	23.7
Shareholders' funds – equity		62.9	67.1	79.2	90.6

(1) See note 1 on page 38

Approved by the Board on 6 March 2003 and signed on its behalf.

Alastair Hewgill
Director

Consolidated statement of total recognised gains and losses

For the year ended 31 December 2002

	2002 £m	2001 Restated[1] £m
Profit for the financial year	7.5	13.5
Exchange rate movements on foreign net investments	(2.5)	0.3
Tax on exchange differences	–	(0.3)
Total recognised gains and losses relating to the year	5.0	13.5
Prior year adjustment[1]	(2.3)	–
Total recognised gains and losses since the last annual report	2.7	13.5

(1) See note 1 on page 38

Reconciliation of movements in consolidated shareholders' funds

For the year ended 31 December 2002

	2002 £m	2001 Restated[1] £m
Profit for the financial year	7.5	13.5
Dividends	(9.3)	(9.3)
Retained (loss)/profit for the year	(1.8)	4.2
Exchange rate movements and related tax on foreign net investments	(2.5)	(0.1)
New share capital subscribed	0.1	0.1
Net (decrease)/increase in shareholders' funds	(4.2)	4.2
Opening shareholders' funds – (restated)[2]	67.1	62.9
Closing shareholders' funds	62.9	67.1

(1) See note 1 on page 38
(2) Opening shareholder's funds at 1 January 2002 have been reduced by £2.3 million (2001: £0.8 million) following the adoption of FRS 19 'Deferred Taxation'.

Consolidated cashflow statement

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Net cash inflow from operating activities	6	35.4	42.1
Returns on investments and servicing of finance			
Interest received		0.3	0.8
Interest paid		(1.9)	(3.5)
Net cash outflow from returns on investments servicing of finance		(1.6)	(2.7)
Tax Paid		(6.6)	(8.4)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(10.0)	(15.4)
Sale of tangible fixed assets		3.9	2.4
Purchase of fixed asset investments		(0.5)	–
Net cash outflow from capital expenditure		(6.6)	(13.0)
Acquisitions			
Purchase of subsidiary undertakings		(1.7)	(0.3)
Equity dividends paid		(9.3)	(8.9)
Net cash inflow before financing		9.6	8.8
Financing			
Issue of shares		0.1	0.1
Net repayment of loans	23	(12.0)	(10.1)
Net cash outflow from financing		(11.9)	(10.0)
Decrease in cash in the year	23	(2.3)	(1.2)

Notes to the accounts

1 Basis of presentation

The consolidated profit and loss account and balance sheets include the accounts of the Company and its subsidiary undertakings made up to 31 December 2002. 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.

The Group has adopted FRS 19 'Deferred Taxation' for the first time in these financial statements. Comparative amounts have been restated and consequently reserves have been decreased and provisions increased by £2.3 million at 31 December 2001.

The impact of adopting FRS 19 on the profit and loss account in 2002 has been to increase the ordinary and total tax charge by £1.2 million (2001: £1.4 million). Basic earnings per share for the year ended 31 December 2001 has been restated from 36.4p to 32.9p.

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 in foreign currencies with overseas customers and suppliers are converted at the average rates for the months in which transactions occur. Profits and losses arising from the difference between these rates and contracted rates on forward exchange rate contracts, which are set up as hedges against such sales and purchases, are recorded in administrative expenses. 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.

Fixed assets and depreciation

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the accounts

3 Activity analysis

	Operating profit 2002 £m	Operating profit 2001 £m	Turnover 2002 £m	Turnover 2001 £m	Net assets 2002 £m	Net assets 2001 Restated[1] £m
3.1 Class of business						
Broadcast Camera Systems	7.2	12.3	57.6	65.8	24.6	30.2
Communications and Audio	1.2	0.8	18.1	18.1	6.8	7.5
Broadcast Systems[2]	8.4	13.1	75.7	83.9	31.4	37.7
Photographic and Retail Display	15.4	16.4	77.0	75.2	29.3	33.4
Broadcast Services	0.9	1.1	29.5	31.3	20.5	21.4
	24.7	30.6	182.2	190.4	81.2	92.5
Goodwill amortisation[3]	(0.9)	(0.9)	–	–	–	–
Exceptional items[4]	(5.8)	–	–	–	–	–
	18.0	29.7	182.2	190.4	81.2	92.5
Group net liabilities[5]					(18.3)	(25.4)
					62.9	67.1

[1] See note 1 on page 38
[2] Broadcast Camera Systems and Communications and Audio divisions have been combined to form Broadcast Systems.
[3] Goodwill amortisation relates to Broadcast Systems – £0.4 million (2001: £0.4 million) Photographic and Retail Display – £0.1 million (2001: £0.1 million), and Broadcast Services – £0.4 million (2001: £0.4 million)
The net book value of goodwill relates to Broadcast Systems £2.5 million (2001: £1.5 million), Photographic and Retail Display – £1.8 million (2001: £1.9 million), and Broadcast Services £6.0 million (2001: £7.1 million)
[4] Exceptional items relate to Broadcast Systems £5.0 million and Photographic and Retail Display £0.8 million.
[5] Group net liabilities include cash, financing and capitalised goodwill.

	Operating profit 2002 £m	Operating profit 2001 £m	Turnover 2002 £m	Turnover 2001 £m	Net assets 2002 £m	Net assets 2001 Restated[1] £m
3.2 Geographic area by origin						
United Kingdom	(4.1)	0.8	21.6	23.1	9.7	10.8
The rest of Europe	18.4	20.2	76.0	72.6	24.6	30.4
The Americas	9.7	8.9	81.9	91.9	45.5	49.6
Asia and Australasia	0.7	0.7	2.7	2.8	1.4	1.7
	24.7	30.6	182.2	190.4	81.2	92.5
Goodwill amortisation[2]	(0.9)	(0.9)	–	–	–	–
Exceptional items[3]	(5.8)	–	–	–	–	–
	18.0	29.7	182.2	190.4	81.2	92.5
Group net liabilities					(18.3)	(25.4)
					62.9	67.1

[1] See note 1 on page 38
[2] Goodwill amortisation relates to The rest of Europe – £0.1 million (2001: £0.1 million) and The Americas – £0.8 million (2001: £0.8 million).
The net book value of goodwill relates to the United Kingdom – £0.5 million (2001: £0.5 million), The rest of Europe – £1.9 million (2001: £2.0 million) and the Americas – £7.9 million (2001: £8.0 million).
[3] Exceptional items relate to United Kingdom – £0.6 million, The rest of Europe – £4.3 million and The Americas – £0.9 million.

Notes to the accounts

3 Activity analysis (continued)

	2002 £m	Turnover 2001 £m
Turnover by destination		
United Kingdom	8.2	9.2
The rest of Europe	50.2	48.3
The Americas	97.7	105.1
Asia and Australasia	21.9	24.6
Africa and Middle East	4.2	3.2
	182.2	190.4

4 Operating expenses

	2002 £m	2001 £m
Analysis of operating expenses		
Distribution costs		
– marketing, selling and distribution costs	32.5	35.8
– research, development and engineering costs	7.5	7.6
	40.0	43.4
Administrative expenses		
– exceptional restructuring costs	5.8	–
– goodwill amortisation	0.9	0.9
– other administrative expenses	23.4	22.0
– exchange (gain)/loss on transactions	(1.1)	0.4
	29.0	23.3
	69.0	66.7

5 Exceptional items

Exceptional items included in profit on ordinary activities before interest are £0.2 million profit on the sale of property fixed assets (Photographic and Retail Display), and included in operating profit are restructing costs of £5.8 million (Broadcast Systems £5.0 million and Photographic and Retail Display £0.8 million).

Prior year exceptional items included in profit on ordinary activities before interest were 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).

Notes to the accounts

6 Operating profit

	2002 £m	2001 £m
The following items are included in operating profit		
Operating lease rental income on owned broadcast equipment	16.8	19.0
Goodwill amortisation	0.9	0.9
Depreciation	12.2	12.3
(Profit)/Loss on sale of fixed assets	(1.5)	0.1
Operating lease rental expense		
Plant, machinery and vehicles	0.1	0.1
Property	4.4	4.2
Auditors' remuneration		
Audit fees (company £0.1 million – 2001: £0.1 million)	0.4	0.4
Other fees paid to the auditor and its associates	1.1	0.7

Fees paid to the auditors for non-audit services comprise £1.0 million (2001: £0.6 million) for tax and £0.1 million (2001: £0.1 million) for other work

Reconcilation of operating profit to net cash flow from operating activities	2002 £m	2001 £m
Operating profit	18.0	29.7
Goodwill amortisation	0.9	0.9
Depreciation	12.2	12.3
(Profit)/Loss on sale of fixed assets	(1.5)	0.1
Decrease in stocks	2.7	4.5
(Increase)/decrease in debtors	(4.3)	3.4
Increase/(decrease) in creditors	2.2	(7.5)
Increase/(decrease) in provisions	5.2	(1.3)
Net cash inflow from operating activities	35.4	42.1

Notes to the accounts

7 Employees

	2002 £m	2001 £m
Aggregate remuneration of all employees during the year		
Wages and salaries	42.4	42.7
Employers' social security costs	6.2	6.9
Employers' pension costs	1.8	1.8
	50.4	51.4

	2002 Number	2001 Restated[1] Number
Average number of employees during the year		
Broadcast Systems[2]	606	655
Photographic and Retail Display	655	638
Broadcast Services	171	183
Head office	14	14
	1,446	1,490

(1) See note 1 on page 38
(2) Broadcast Camera Systems and Communications and Audio divisions have been combined to form Broadcast Systems.

8 Directors' remuneration

The emoluments, share options, awards under incentive schemes and pension entitlements of the directors are disclosed in the Remuneration report on pages 19 to 25.

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

	2002 £m	2001 £m
Fees for non-executive duties	0.2	0.2
Remuneration for executive duties	0.8	0.8
	1.0	1.0

Notes to the accounts

9 Tax

(a) Analysis of taxation charge in the year

	2002 Before exceptional items and goodwill amortisation £m	2002 Goodwill and exceptional items £m	2002 Total £m	2001 Restated[1] Before exceptional items and goodwill amortisation £m	2001 Restated[1] Goodwill and exceptional items £m	2001 Restated[1] Total £m
UK corporation tax payable at 30% (2001: 30%)	0.3	–	0.3	(0.2)	–	(0.2)
Less: Double taxation relief	(0.3)	–	(0.3)	–	–	–
	0.0	–	0.0	(0.2)	–	(0.2)
Tax on exchange differences taken to reserves	–	–	–	(0.3)	–	(0.3)
Overseas corporate tax	8.3	–	8.3	9.5	0.3	9.8
Adjustments in respect of prior years	0.1	–	0.1	(0.2)	–	(0.2)
Total current tax	8.4	–	8.4	8.8	0.3	9.1
Overseas deferred taxation	0.7	–	0.7	1.6	–	1.6
Taxation on profit on ordinary activities	9.1	–	9.1	10.4	0.3	10.7

(1) See note 1 on page 38

(b) Factors affecting the current tax charge

	2002 Before exceptional items and goodwill amortisation £m	2002 Goodwill and exceptional items £m	2002 Total £m	2001 Before exceptional items and goodwill amortisation £m	2001 Goodwill and exceptional items £m	2001 Total £m
Current tax						
Profit on ordinary activities before taxation	23.1	(6.5)	16.6	28.0	(3.8)	24.2
Notional charge at UK corporation tax rate of 30%	6.9	(2.0)	4.9	8.4	(1.1)	7.3
Profits in tax free areas	(0.7)	–	(0.7)	(0.5)	–	(0.5)
Allowable amortisation of intangible assets	(1.0)	–	(1.0)	(1.5)	–	(1.5)
Higher overseas tax rates	1.8	–	1.8	2.0	0.1	2.1
Permanent timing differences	(0.5)	–	(0.5)	–	1.3	1.3
Unrealised tax losses/(utilisation of tax losses)	2.0	1.7	3.7	(0.3)	–	(0.3)
Adjustments in respect of prior periods	0.1	–	0.1	(0.2)	–	(0.2)
Other items	(0.2)	0.3	0.1	0.9	–	0.9
Current ordinary tax charge for the year	8.4	0.0	8.4	8.8	0.3	9.1

Note: Current tax on Goodwill and exceptional items of £nil in 2002 comprises a charge of £0.1million in respect of the sale of the overseas property and a tax benefit of £(0.1)million arising on the exceptional costs.

(c) Factors that may affect future tax charges

A significant proportion of the Group's operating profits will continue to be are earned in countries with a higher rate of tax than in the UK. No deferred tax has been recognised on tax losses of £8 million as these are not expected to be utilised in the forseeable future.

10 Dividends

	2002 £m	2001 £m
Interim paid of 6.1p per share (2001: 6.1p)	2.5	2.5
Final proposed 16.6p per share (2001: 16.6p)	6.8	6.8
Total dividends 22.7p per share (2001: 22.7p)	9.3	9.3

11 Earnings per ordinary share

The calculation of basic earnings per share is based on profit after tax of £7.5 million (2001: £13.5 million – restated) and on the weighted average number of shares in issue during the year of 41,008,348 (2001: 40,982,606).

Adjusted basic 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 2002 this profit was £14.0 million (2001: £17.6 million – restated)

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

	Profit		Earnings per share	
	2002 £m	Restated[1] 2001 £m	2002 pence	Restated[1] 2001 pence
Profit for the financial year	7.5	13.5	18.3	32.9
Add back: exceptional items	5.6	3.2	13.6	7.8
Add back: goodwill amortisation	0.9	0.9	2.2	2.2
Earnings before exceptional items and goodwill amortisation	14.0	17.6	34.1	42.9

(1) See note 1 on page 38

The calculation of diluted earnings per share is based on profit after tax of £7.5 million (2001: £13.5 million – restated).

The number of shares used to calculate the diluted earnings per share incorporates the weighted average number of shares in issue 41,008,348 (2001: 40,982,606) and the number of shares under option of 2,678,405 (2001: 2,427,624), contingently issuable shares from the total of potential Long term incentive plan awards of 404,560 (2001: 337,045) and shares issuable under the Deferred bonus plan of 20,127 (2001: 42,128), 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 2002. The number of shares used for the calculation is 41,022,262 (2001: 41,048,425).

12 Intangible fixed assets

	Total £m	Development costs £m	Goodwill £m
Cost			
At 1 January 2002	13.1	0.3	12.8
Currency translation adjustments	(1.0)	–	(1.0)
Additions	1.9	0.4	1.5
At 31 December 2002	14.0	0.7	13.3
Amortisation			
At 1 January 2002	2.3	–	2.3
Currency translation adjustments	(0.2)	–	(0.2)
Charge for the year	0.9	–	0.9
At 31 December 2002	3.0	–	3.0
Net book value			
At 31 December 2002	11.0	0.7	10.3
At 1 January 2002	10.8	0.3	10.5

Additions of £1.5 million in goodwill represent goodwill arising on the acquisition of the trade, assets and certain liabilities of Aspen Electronics Inc, on 14 February 2002 by the Broadcast Camera Systems division. (See note 20). The goodwill is being amortised over a period of 20 years.

Notes to the accounts

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 2002	105.3	24.5	64.7	16.1
Currency translation adjustments	(2.7)	0.7	(3.3)	(0.1)
Additions	10.0	0.3	7.7	2.0
Disposals	(9.4)	(3.2)	(5.2)	(1.0)
At 31 December 2002	103.2	22.3	63.9	17.0
Depreciation				
At 1 January 2002	56.8	7.1	40.1	9.6
Currency translation adjustments	(1.9)	0.1	(2.0)	–
Charge for the year	12.2	1.0	9.2	2.0
Disposals	(6.6)	(1.4)	(4.3)	(0.9)
At 31 December 2002	60.5	6.8	43.0	10.7
Net book value				
At 31 December 2002	42.7	15.5	20.9	6.3
At 1 January 2002	48.5	17.4	24.6	6.5

Plant, machinery and vehicles includes broadcast equipment rental assets with a cost of £ 31.7 million (2001: £31.5 million) and accumulated depreciation of £17.2 million (2001: £14.9 million)

The fixed assets of the Company, comprising principally of land and buildings, at a cost of £3.3 million (2001: £3.3 million) and with accumulated depreciation of £1.1 million (2001: £1.0 million) and net book value £2.2 million (2001: £2.3 million) are included above. During the year additions at cost were £nil and the depreciation charge was £0.2 million.

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Net book value of land and buildings at cost or valuation comprise the following				
Carried at cost	13.7	15.6	0.3	0.3
Carried at valuation (open market basis – 31 March 1989)	1.8	1.8	1.8	1.8
	15.5	17.4	2.1	2.1
Freehold	14.5	15.9	1.8	1.8
Short Leasehold	1.0	1.5	0.3	0.3
	15.5	17.4	2.1	2.1

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 £0.2 million.

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

Capital commitments for which no provision has been made in the accounts amount to £0.3 million (2001: £1.1 million) for the Group and £nil (2001: £nil) for the Company.

Notes to the accounts

14 Fixed asset investments

Investments at cost or written down value	Total £m	Investment in own shares £m	Investment in other shares £m	Loans £m
Group				
Cost				
At 1 January 2002	3.7	–	3.7	–
Additions	0.5	0.5	–	–
Currency translation adjustments	(0.5)	–	(0.5)	–
At 31 December 2002	3.7	0.5	3.2	–
Provision				
At 1 January 2002	(3.7)	–	(3.7)	–
Amounts provided for	0.5	–	0.5	–
At 31 December 2002	(3.2)	–	(3.2)	–
Net book value				
At 31 December 2002	0.5	0.5	–	–
At 1 January 2002	–	–	–	–
Company				
At 1 January 2002	129.0	–	84.6	44.4
Additions	15.8	0.5	–	15.3
At 31 December 2002	144.8	0.5	84.6	59.7

The Group's investment in other shares represents a 12% investment in Intersense Inc. Full impairment provision has been made against this investment.

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

Principal subsidiaries

The Group's principal subsidiaries at 31 December 2002 are listed below.

	Country of incorporation
Vitec Group US Holdings Inc	USA
Vitec Luxembourg Holdings Sarl	Luxembourg
Vitec International Financial Services Company Limited	Ireland
Vitec UK Finance Limited	England and Wales
Vitec UK Investments Limited	England and Wales
Photographic and retail display	
Alu Inc	USA
Bogen Photo Corporation	USA
Gitzo SA	France
Gruppo Manfrotto Srl	Italy England and Wales
Broadcast systems	
Anton/Bauer Inc	USA
Aspen Electronics Inc	USA
Centro de Produccion Profesional CPP Limitada	Costa Rica
Drake Electronics Limited	England and Wales*
LCB Beteiligungs GmbH	Germany
Sachtler Corporation of America	USA
Sachtler GmbH & Co. KG	Germany
Vinten Broadcast Limited	England and Wales*
Vinten Inc	USA
Vitec CC Inc (trading as Clear Com)	USA
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 2002 £m	2001 £m
Raw materials and components	9.1	10.3
Work in progress	7.5	8.2
Finished goods	13.9	15.1
	30.5	33.6

Notes to the accounts

16 Debtors

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts falling due within one year				
Trade debtors	28.5	26.4	–	–
Amounts recoverable on long term contracts	1.0	–	–	–
Amounts owed by subsidiaries	–	–	0.5	1.9
Other debtors	3.3	3.2	0.5	0.4
Tax recoverable	–	1.1	1.1	1.1
Prepayments and accrued income	2.3	1.6	0.2	0.1
	35.1	32.3	2.3	3.5
Amounts falling due after one year				
Prepayments and accrued income	1.0	1.2	–	–
Other debtors	0.9	0.8	–	–
	1.9	2.0		
Total debtors	37.0	34.3	2.3	3.5

17 Creditors

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts falling due within one year				
Bank loans (unsecured)	–	32.0	–	32.0
Other loans (unsecured)	4.0	4.1	–	–
Payments received on account	0.2	0.2	–	–
Trade creditors	12.1	9.6	–	–
Amounts owed to subsidiaries	–	–	40.3	11.2
Dividends	6.8	6.8	6.8	6.8
Corporation tax	5.0	3.3	–	–
Other tax and social security costs	1.6	1.4	0.1	0.1
Other creditors	3.6	4.7	0.2	0.2
Accruals and deferred income	3.5	2.7	0.9	0.5
	36.8	64.8	48.3	50.8
Amounts falling due after more than one year				
Bank loans (unsecured)	24.0	–	24.0	–
Other loans (unsecured)	–	4.2	–	–
Loans owed to subsidiaries	–	–	–	1.5
Other creditors	–	0.1	–	–
Accruals and deferred income	0.3	0.2	–	–
	24.3	4.5	24.0	1.5

Notes to the accounts

18 Financial instruments

An explanation of the Group's treasury policy and controls is included in the Financial review on page 14. Short term debtors and creditors have been omitted from all disclosures other than the currency profile.

a) Financial liabilities

i) Analysis of borrowings

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank loans	24.0	32.0	24.0	32.0
Senior notes	3.5	7.7	–	–
Other loans	0.4	0.6	–	–
Swaps	0.1	–	0.1	–
Gross financial liabilities	28.0	40.3	24.1	32.0

ii) Maturity profile

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Within one year or less	4.0	36.1	0.1	32.0
More than one year but not more than two years	24.0	4.2	24.0	–
More than two year but not more than five years	–	–	–	–
	28.0	40.3	24.1	32.0

The total amount of loans any part of which falls due after 5 years is £nil (2001: £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 £0.3 million (2001: £0.6 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.

	2002 £m	2001 £m
Expiring in one year or less		
– committed facilities	–	28.0
– uncommitted facilities	31.0	25.0
More than two years but not more than three years		
– committed facilities	31.0	–
Total	62.0	53.0

18 Financial instruments (continued)

iii) Interest rate profile

Currency	Total £m	Floating rate borrowings £m	Fixed rate borrowings £m	Fixed rate weighted average interest %	Fixed rate weighted average period at Years
Sterling	25.4	25.4	–		
US$	2.2	–	2.2	6.7	1
Euro	0.4	–	0.4	5.1	1
At 31 December 2002	28.0	25.4	2.6		
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		

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

b) Financial assets

Currency	2002 £m	Floating rate 2001 £m
Sterling	2.5	1.6
US$	7.3	4.1
Euro	5.2	10.8
Other	1.1	1.3
	16.1	17.8

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

Notes to the accounts

c) Fair value of financial assets and liabilities

	2002 Book value £m	2002 Fair value £m	2001 Book value £m	2001 Fair value £m
Cash at bank and in hand	16.1	16.1	17.8	17.8
Floating rate borrowings	(25.3)	(25.3)	(34.8)	(34.8)
Fixed rate borrowings	(2.6)	(2.6)	(5.5)	(5.5)
Swaps	(0.1)	(0.1)	–	–
	(11.9)	(11.9)	(22.5)	(22.5)

Market rates have been used to determine fair values.

d) Foreign exchange hedging

Administration expenses includes net gains of £1.1 million (2001: £0.4 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 2002, the cumulative, unrecognised aggregate gain on forward exchange rate contracts as of 31 December 2002 is £2.6 million (2001: £0.4 million). All of these unrecognised gains relate to the year 2003. 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.

Functional currency of group operation

	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Sterling	–	0.1	0.1	(0.3)	(0.1)
Euro	0.1	2.7	–	0.5	3.3
At 31 December 2002	0.1	2.8	0.1	0.2	3.2
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)

Notes to the accounts

19 Provisions for liabilities and charges

	Group Total £m	Group Deferred tax £m	Group Exceptional restructuring £m	Group Other provisions £m	Company Total £m	Company Deferred tax £m
At 1 January 2002 (as previously reported)	6.3	1.9	0.3	4.1	0.1	0.1
Prior year adjustment (see note 1 on page 38)	2.3	2.3	–	–	–	–
At 1 January 2002 (restated)	8.6	4.2	0.3	4.1	0.1	0.1
Currency translation adjustments	0.1	(0.3)	–	0.4	–	–
Transfers from current tax	(0.8)	(0.8)	–	–	–	–
Profit and loss account	7.1	0.7	5.8	0.6	–	–
Utilised in year	(1.2)	–	(0.9)	(0.3)	–	–
At 31 December 2002	13.8	3.8	5.2	4.8	0.1	0.1

Other provisions include £3.5 million (2001: £2.9 million) to cover accrued statutory entitlements that will be paid to employees in Italy, Germany and Japan when they leave employment of the Group.

The remaining provisions include warranty provisions of £0.8 million (2001: £0.8 million) and property provisions of £0.2 million (2001: £0.2 million).

The majority of the exceptional restructuring provision will be utilised in 2003 with the remaining balance utilised in 2004 and 2005.

	Group 2002 £m	Group Restated[1] 2001 £m	Company 2002 £m	Company 2001 £m
Composition of deferred tax provision				
Accelerated tax depreciation allowances	2.7	1.9	0.1	0.1
Other timing differences	1.1	2.3	–	–
	3.8	4.2	0.1	0.1

(1) See note 1 on page 38

20 Acquisitions of businesses

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$2m (£1.4m) and deferred consideration of US$0.2m (£0.1m) payable in 2004.

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

Net operating assets acquired comprise the following:

	Book value £m	Fair value adjustments £m	As adjusted £m
Net Assets acquired			
Tangible fixed assets	0.1		0.1
Stocks	0.4	(0.1)	0.3
Debtors	0.1		0.1
Creditors	(0.2)	(0.1)	(0.3)
	0.4	(0.2)	0.2
Purchased goodwill			1.5
Total cost of acquisition, including expenses, satisfied by cash			1.7

The fair value adjustments comprise the alignment of accounting policies for stock and warranty provisions with those of the Group.

Net outflow of cash in respect of acquisitions

Total cost of acquisitions including expenses	1.7
Net cash acquired	–
Total outflow of cash from Group	1.7

The results of Aspen have been included in the Broadcast Systems division and comprise:

	2002 £m
Turnover	0.8
Cost of sales	(0.5)
Operating expenses	(0.4)
Operating loss before goodwill amortisation	(0.1)

Notes to the accounts

21 Share capital

The authorised share capital at 31 December 2002 consisted of 65,000,000 (2001: 65,000,000) shares of 20p each, of which 41,021,786 were allotted and fully paid. The movement during the year was:

	Shares	Issued share capital £m
At 1 January 2002	40,985,752	8.2
Exercise of share options	36,034	–
At 31 December 2002	41,021,786	8.2

At 31 December 2002 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	223,016	268p – 595 p	2003 – 2010
International SAYE schemes	348,679	268p – 633 p	2003 – 2008
Executive schemes	1,334,942	350p – 694 p	2003 – 2012
Premium option plan	771,768	661p – 819 p	2003 – 2010
	2,678,405		

On 14 March 2002, awards over an aggregate of 140,423 shares in the Company were made to 8 senior Group executives under the Company's long term incentive plan. On 11 September 2002, an award over 21,898 shares in the Company was made to Alastair Hewgill under the Company's long term incentive plan. The total number of shares outstanding at 31 December 2002 under the Company's long term incentive plan was 404,560 (2001: 337,045).

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 2002 under the Company's deferred bonus plan was 51,106. The terms of the awards and the related performance conditions are described in the Directors' report.

Notes to the accounts

22 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 2002 (as previously reported)	2.5	1.6	1.5	–	–	55.6
Prior year adjustments (see note 1 on page 38)						(2.3)
At 1 January 2002 (restated)	2.5	1.6	1.5	–	–	53.3
Retained loss for the year						(1.8)
Premium on new shares issued	0.1	–	–	–	–	–
Exchange rate movement on foreign net investments	–	–	–	–	–	(2.5)
At 31 December 2002	2.6	1.6	1.5	–	–	49.0

At 31 December 2002 the cumulative goodwill written off on acquisitions prior to 1 January 1998 amounted to £128.3 million (2001: £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 2002	2.5	1.6	0.9	9.7	44.0	23.7
Retained loss for the year	–	–	–	–	–	(11.7)
Exchange rate movement on foreign net investments	–	–	–	–	–	0.2
Premium on new shares issued	0.1	–	–	–	–	–
At 31 December 2002	2.6	1.6	0.9	9.7	44.0	12.2

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 loss of £2.4 million (2001: £26.8 million profit).

Notes to the accounts

23 Cash and financing

	2002 £m	2001 £m
Reconciliation of net cash flow to movement in net debt		
Decrease in cash in the year	(2.3)	(1.2)
Net repayment of loans	12.0	10.1
Reduction in net debt resulting from cash flows	9.7	8.9
Exchange rate movements	0.9	(0.4)
Movement in net debt in the period	10.6	8.5
Net debt at 1 January	(22.5)	(31.0)
Net debt at 31 December	(11.9)	(22.5)

	1 January 2002 £m	Cash flow £m	Other non-cash £m	Exchange movements[1] £m	31 December 2002 £m
Analysis of net debt					
Cash	17.8	(2.3)	–	0.6	16.1
Debt due after one year	(4.2)	8.1	(28.2)	0.3	(24.0)
Debt due within one year	(36.1)	3.9	28.2	–	(4.0)
	(40.3)	12.0	–	0.3	(28.0)
Total	(22.5)	9.7	–	0.9	(11.9)

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

	2002 £m	2001 £m
Interest		
Bank loans and overdrafts	1.5	2.6
Other loans – repayable within five years	0.5	0.8
Total payable	2.0	3.4
Interest receivable	(0.4)	(0.8)
Net interest payable	1.6	2.6

24 Leasing commitments

At 31 December 2002 the Group had the following annual commitments under operating leases

	Land and buildings £m	Other £m	Total £m	2001 £m
Expiring within one year	0.8	–	0.8	0.9
Expiring two to five years	2.7	0.1	2.8	2.5
Expiring after five years	0.4	–	0.4	1.0
	3.9	0.1	4.0	4.4

Notes to the accounts

25 Contingent liabilities

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

26 Pension commitments

During the year, the Group operated funded defined benefit pension schemes set up under separate trusts and open to eligible employees. The Group 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 £0.7 million (2001: £0.6 million) for the year. On this basis, the pension charge for 2002 has been calculated as £0.8 million (2001: £0.7 million). There is a prepayment of £0.9 million (2001: £0.9 million) included in the balance sheet being the excess of the accumulated company pension contributions paid to the schemes over the amount charged to the profit and loss account.

The disclosures required in relation to the transitional arrangements within FRS17 'Retirement Benefits' have been based on the most recent formal actuarial valuation as at 5 April 2001 updated to 31 December 2002, but using the following financial assumptions for the purpose of FRS17:

	2002 % per annum	2001 % per annum
Price inflation	2.25	2.50
General salary and wage inflation	4.25	4.50
Increases to pensions in payment (in excess of GMPs)	2.25	2.50
Increases to deferred pensions	2.25	2.50
Discount rate	5.50	5.75

Scheme assets as at 31 December

	2002 Fair value £m	2002 Expected rate of return % pa	2001 Fair value £m	2001 Expected rate of return % pa
Equities	16.3	8.2	19.3	7.9
Bonds	5.6	4.8	6.1	5.2
Property	1.4	6.9	1.1	7.1
Cash and net current assets	0.1	4.0	0.5	4.5
Total	23.4	7.3	27.0	7.2

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

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

26 Pension commitments (continued)

Profit and loss charge for the year 2002 (based on 31 December 2001 assumptions)

Analysis of amounts charged to operating profit:	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	Total £m
Current service cost	0.7	0.4	1.1
Past service costs	–	–	–
Total charged to operating profit	0.7	0.4	1.1
Analysis of the amount charged to other finance income:			
Interest on pension scheme liabilities	1.0	0.5	1.5
Expected return on assets in the pension scheme	(1.4)	(0.5)	(1.9)
Net charge (credit) to other finance income	(0.4)	–	(0.4)
Total profit and loss charge before deduction for tax	0.3	0.4	0.7

Analysis of amounts recognised in the statement of total gains and losses for year to 31 December 2002

	Total £m
Actual return less expected return on pension scheme assets	(5.6)
Experience gains and losses arising on the scheme liabilities	0.1
Changes in assumptions underlying the present value of the scheme liabilities	(0.2)
Actuarial (loss) recognised in the statement of total gains and losses before adjustment for tax	(5.7)

History of experience gains and losses

	Total
a. (Gain) loss on plan assets	
amount (£ million)	£5.6m
% of plan assets at 31 December 2002	23.40%
b. Experience (gain) loss on plan liabilities	
amount (£ million)	£(0.1)m
% of plan liabilities at 31 December 2002	0.40%
c. Total actuarial (gain) loss recognised in the statement of total gains and losses	
amount (£ million)	£5.7m
% of plan liabilities at 31 December 2002	20.40%

Notes to the accounts

26 Pension commitments (continued)

Reconciliation to the balance sheets

	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	2002 Total £m	Vitec Group Pension Scheme £m	Vitec Group Executive Pension Scheme £m	2001 Total £m
Fair value of scheme assets	17.1	6.8	23.9	20.0	7.6	27.6
Actuarial value of scheme liabilities	(19.0)	(8.9)	(27.9)	(17.7)	(8.2)	(25.9)
Surplus/(deficit) in the scheme	(1.9)	(2.1)	(4.0)	2.3	(0.6)	1.7
Related deferred tax asset/(liability)	0.6	0.6	1.2	(0.7)	0.2	(0.5)
Pension asset/(liability) recognised in balance sheet (before allowance for deferred tax)	(1.3)	(1.5)	(2.8)	1.6	(0.4)	1.2

The amount of the net pension liability would have a consequential effect on reserves. The assets and liabilities shown for the Vitec Group Executive Pension Scheme include an amount of £0.5 million (2001: £0.6 million) in respect of certain insurance policies which meet the cost of providing part of the benefit for some pensioners. The value placed on these insurance policies is in addition to the value of the scheme's investments.

Movement in scheme surplus/(deficit) during 2002	Total £m
Surplus in schemes at beginning of year	1.7
Movements over year to 31 December 2002:	
Current service cost	(1.1)
Employer contributions	0.7
Past service cost	–
Other finance income	0.4
Actuarial gain/(loss)	(5.7)
(Deficit) in schemes at end of year	(4.0)

Notes to the accounts

27 Related party transactions

During the year the following related party transactions took place

Lino Manfrotto, a director of Lino Manfrotto & Co Spa, is president and shareholder of Mancor Spa, a company from which Gruppo Manfrotto rents properties used in its business under operating leases, which expire in 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 2002 totalled €242,719, £153,000 (2001: €241,600, £151,000). At 31 December 2002, there were no outstanding amounts payable to Mancor (2001: Nil). Lino Manfrotto also owns a factory leased by Gruppo Manfrotto until 2003. Rents paid to Lino Manfrotto during the year totalled €67,000, £42,000 (2001: €66,000, £41,000). At 31 December 2002 there were no outstanding rents payable to Lino Manfotto (2001: nil).

Abramo Manfrotto is a shareholder and director of Antide Srl, a company specialising in world-wide web sites and e-mail services. Group companies paid Antide a total of €70,000, £44,000 during the year (2001: €68,000, £42,000) for products and services. At 31 December 2002 Gruppo Manfrotto owed Antide €29,000, £19,000 (2001: €38,000, £23,000).

Abramo Manfrotto is also a shareholder of Antide Net Srl, a company specialising in IT consulting. Group companies paid Antide Net Srl a total of €8,000, £5,000 during the year (2001: Nil) for services. At 31 December 2002 there were no outstanding amounts payable to Antide Net Srl.

28 Post balance sheet events

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

On 18 February 2003 the Group acquired the shares of Radamec Broadcast Systems Limited in the UK, and acquired the operating assets and some of the liabilities of Radamec Inc in the USA, from Radamec Group PLC for £4.65 million in cash.

Five year financial summary

	2002	2001 (Restated)[1][4]	2000	Year ended 31 December 1999	1998
	£m	£m	£m	£m	£m
Turnover	182.2	190.4	200.0	171.4	162.3
Operating profit before exceptional items and goodwill amortisation	24.7	30.6	40.1	38.2	40.0
Interest	(1.6)	(2.6)	(2.9)	(1.1)	(0.7)
Profit before tax, exceptional items and goodwill amortisation	23.1	28.0	37.2	37.1	39.3
Operating cash flow	34.9	42.1	45.8	51.1	43.3
Free cash flow[2]	20.7	18.0	17.6	29.2	17.8
Capital employed					
Intangible fixed assets	11.0	10.8	10.9	10.0	6.9
Tangible fixed assets	42.7	48.5	47.0	37.5	37.0
Other net assets	24.9	34.5	38.5	27.7	33.2
Net cash	–	–	–	–	7.3
	78.6	93.8	96.4	75.2	84.4
Financed by					
Shareholders' funds – equity	62.9	67.1	63.7	44.2	81.3
Minority interest	–	–	–	0.9	0.8
Net debt	11.9	22.5	31.0	27.8	–
Deferred tax	3.8	4.2	1.7	2.3	2.3
	78.6	93.8	96.4	75.2	84.4
Statistics					
Operating profit (%) before exceptional items and goodwill amortisation	13.6	16.1	20.1	22.3	24.6
Effective tax rate (%)	39.4	37.1	30.9	30.7	27.6
Adjusted basic earnings per share (p)[3]	34.1	42.9	62.8	54.3	58.2
Basic earnings per share (p)	18.3	32.9	56.7	53.3	56.6
Dividends per share (p)	22.7	22.7	21.2	18.5	16.1
Year-end ex-dividend mid-market share price (p)	277.5	425.0	498.0	527.0	587.0

(1) See note 1 on page 38.
(2) Free cash flow is the cash inflow from operating activities less interest, tax and capital expenditure on tangible fixed assets.
(3) Differences between Adjusted basic and Basic earnings per share arise from exceptional items in the years in question and, from 1998, the amortisation of goodwill.
(4) The figures for 2001 in the Five-year financial summary have been restated following the adoption & FRS 19 'Deferred Taxation'. It has not been practical to restate earlier years.

Group directory

Main offices in each country

Photographic and retail display

ALU Italy
Via Del Commercio 22
36060 Romano d'Ezzelino
VI Italy
Tel: +39 (0424) 516 816
Fax: +39 (0424) 36550
www.alu.com
(also UK)

ALU USA
117 Seaview Drive
Secaucus
NJ 07094
USA
Tel: +1 (201) 617 2000
Fax: +1 (201) 617 2001
www.alu.com

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

Gitzo
Créteil Parc
8/10 rue Sejourné
94044 Créteil
France
Tel: +33 (1) 4 513 1860
Fax: +33 (1) 4 377 1505
www.gitzo.com

Manfrotto
Via Sasso Rosso n19
PO Box 216
I-36061 Bassano del Grappa
Italy
Tel: +39 (0424) 555855
Fax: +39 (0424) 808999
www.manfrotto.com
(also France)

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

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

Broadcast systems

Anton/Bauer
14 Progress Drive
Shelton
CT 06484
USA
Tel: +1 (203) 929 1100
Fax: +1 (203) 925 4988
www.antonbauer.com

Clear-Com
4065 Hollis Street
Emeryville
CA 94608
USA
Tel +1 (510) 496 6666
Fax: +1 (510) 496 6699
www.clearcom.com

Drake Electronics
26-28 Hydeway
Welwyn Garden City
Hertfordshire
AL7 3UQ
UK
Tel: +44 (0)1727 871200
Fax: +44 (0)1707 371266
www.drake-uk.com

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

Vinten Broadcast
Western Way
Bury St Edmunds
Suffolk
IP33 3TB
UK
Tel: +44 (0)1284 752121
Fax: +44 (0)1284 750560
www.vinten.com
(also Asia Pacific, France,
Germany, Japan and USA)

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 1572
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 Registrars The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, telephone 0870 162 3100 (UK only) or +44 (0)20 8639 2157 (Overseas only).

Online services and electronic voting

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

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

Should you experience any difficulties using these facilities please contact the Capita Registrars helpline 0870 162 3100.

Analysis of shareholdings as at 31 December 2002

Shares held	Number of holders	% of holders	Number of shares	% of shares
Up to 1,000	744	55.60	305,152	0.74
1,001 to 5,000	360	26.91	848,006	2.07
5,001 to 10,000	58	4.33	395,564	0.96
10,001 to 50,000	71	5.31	1,659,497	4.05
50,001 to 100,000	34	2.54	2,448,374	5.97
100,001 and over	71	5.31	35,365,193	86.21
	1,338	100.00	41,021,786	100.00
Institutions and companies	442	33.03	37,989,700	92.61
Individuals including directors and their families	896	66.97	3,032,086	7.39
	1,338	100.00	41,021,786	100.00

Share price information

The middle market price of a share of The Vitec Group plc share on 31 December 2002, the last dealing day of 2002, was 277.5p. During the year the share price fluctuated between 260p and 557.5p. 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	1 May 2003
Ex-dividend date for 2002 final dividend	23 April 2003
Record date for 2002 final dividend	25 April 2003
Proposed 2002 final dividend payment date	22 May 2003
Announcement of 2003 interim results	September 2003
Proposed 2003 interim dividend payment date	November 2003

Designed by Dialog abc Ltd. Email: info@dialog.biz Printed by Empress Litho Ltd.

200

vitec

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